

MarketLine Case Study

The Future of Travel & Tourism

Technology is driving significant
change and growth is on the
horizon

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EXECUTIVE SUMMARY

Travel and tourism accounts for more than one-tenth of global GDP making it one of the most important industries there is. After a long period of fairly limited innovation the industry is experiencing a new time of significant change that is beginning to change the nature of the industry. More than any other factor, technology is driving this change causing businesses in the industry to rethink their business model and adapt to the times to better engage with their customers. The future of the industry is going to be recognizable, but there will certainly be new types of products that take advantage of the fact that travelers are now increasingly mobile, constantly connected and demanding new and unique experiences.

Airline industry is striving for innovation amid difficult trading conditions

The airline industry continues to experience periods of flux. Not only are flag carriers across Europe struggling to counter budget airline expansions, but consolidation could become a more prominent feature as airlines attempt to replicate the rise of profitability recorded in the United States. What leading airlines are expected to do is changing; so too is how revenues are generated. Social media and online platforms are of growing importance, inciting growth in the importance given to those areas.

Hotel market not changing as dramatically as once thought

Many have alluded to the rise of Airbnb as an indicator of the end of the dominance of the big hotel chains and Airbnb has brought some changes to the industry, but ultimately the big hotel chains are growing regardless. The future of the industry is likely to include Airbnb as a significant player that offers the most rooms, but Airbnb is best viewed as more of a marketplace for property owners than a hotel industry threat, because they operate in very different segments. Despite this though, the future of the hotel industry will require some flexibility and change on the part of the hotel industry, because there are some new requirements coming from younger generations and from business customers that want more leisure and experiences built into their hotel stay. This requires expensive redesigns of some chains if they intend to cater for this trend.

People are going on different types of vacation, changing the market

Not regarded as a market prone to sudden changes, vacations have been experiencing gradual development of late due to adjustment to developing consumer tastes. Now a growing part of the market and attracting investment, cruises are attracting new audiences. Package vacations have survived numerous dips following terror attacks around the world, and appear set to remain the mainstay of vacations. The market is adapting to the rise in solitary travelers and continued popularity of short-term city breaks, marking a departure from the traditional two-week vacation. Those companies best able to survive the transition to modern consumer tastes stand to prosper over the long-term.

The business of selling holidays is changing

Increasingly the business of selling holidays and destinations has been left to traditional marketing outlets, newspapers and travel agents. However, for many this has begun to change as new types of free online content allow prospective customers the chance to get hugely in depth views and opinions of potential new places to visit from glamorous new salespeople. Effectively the importance of certain sites like Instagram, Facebook and YouTube, cannot be understated because it now propels today's customers towards a certain travel experience and it is all available free from any mobile device. Holiday companies and the travel industry at large has recognized this shift and are now doing what they can to get their content and products in front of as many eyes as possible.

The travel insurance industry has many options for innovation

There are a range of options when it comes to booking travel insurance, from a simple policy that purely covers incidents such as stolen baggage or itinerary changes, to more comprehensive insurance plans that include medical and accident coverage. Travel insurance is still in a grey area though because despite it being an essential purchase many continue to ignore it, particularly for small trips where they would prefer not to endure the extra expense and complication. The broader insurance market is innovating quickly. Much could be done in this sector to make travel insurance easier to obtain, less cumbersome and complicated and deploy new technologies to make it more appropriate and useful.

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AIRLINE INDUSTRY IS STRIVING FOR INNOVATION AMID DIFFICULT TRADING CONDITIONS

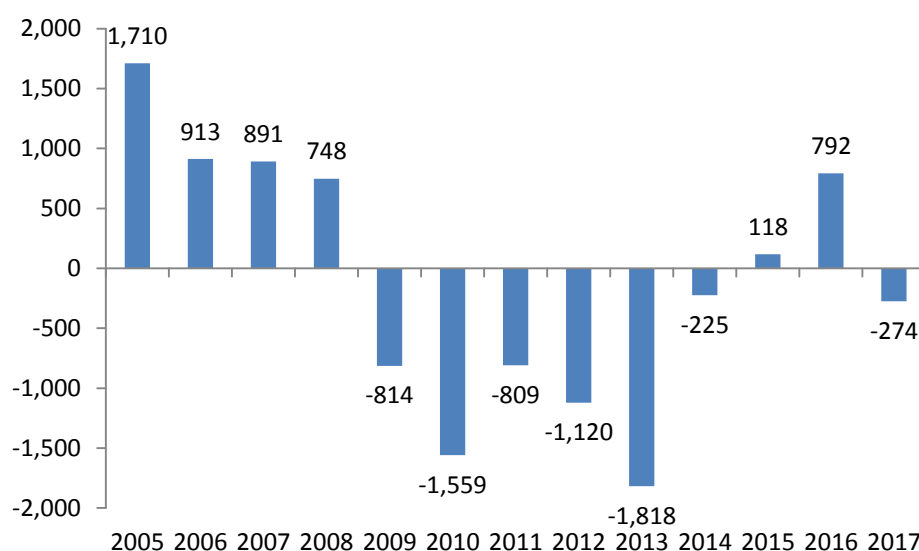
The airline industry continues to experience periods of flux. Not only are flag carriers across Europe struggling to counter budget airline expansions, but consolidation could become a more prominent feature as airlines attempt to replicate the rise of profitability recorded in the United States. What leading airlines are expected to do is changing; so too is how revenues are generated. Social media and online platforms are of growing importance, inciting growth in the importance given to those areas.

Sustainable airlines are minority in industry where margins are thin

Even though consolidation in the United States has largely proved successful from a sustainability point of view (passenger complaints, however, reveal extensive dissatisfaction with the quality of service), the global airline industry continues to suffer from major names falling into trouble and struggling to recover. In the UK Monarch airlines recently went under, forcing the government to pay for the largest peace time repatriation the country has ever undertaken. Shares in Air-France KLM were temporarily suspended recently after the French government warned striking staff the airline was in danger of collapse. Others have also struck trouble.

Flag carriers have found trading conditions to be especially tough. Created during the so called 'golden age' of air flight, flag carriers have suffered as the luster has been eroded by the lower costs offered by new budget players. Both British Airways and Air France have been forced into mergers to maintain leading positions in the industry. However, even risking diluting the brand to take advantage of economies of scale has failed to reverse the steady decline. Air France joined up with Dutch airline KLM in 2004, but the deal has failed to initiate the cost cutting required to make the company competitive. In May Jean-Marc Janailac, the chief executive, resigned following the rejection of a proposed 7% pay rise over four years. Even though low oil prices have helped sustain the firm of late, a series of 14 one-day strikes has cost at least \$350m, inflicting severe pain to the balance sheet.

Figure 1: Air-France KLM net income 2005 to 2017 (EURm)



SOURCE: Air-France KLM

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Whilst Air-France KLM has been criticized for not reducing costs, the danger of flag carriers doing so is evidenced by British Airways. Both staff and passengers have become increasingly vocal in complaining about the decline of service quality.

The Sunday Times reported a list of recent changes the airline has undertaken which staff believe is diluting the elite brand image the company trades off. Few flag carriers are thriving; Finnair in Finland stands out as a rare example. A widespread problem has been persistent failures to realize the allure of being a flag carrying airline only provided a patina of protection against the swift growth of low-cost, no thrills airlines. Often decisions surrounding the prestige airlines have been taken with excessive sentimentality in mind; the most successful cases are those in which business has been allowed to take precedence over more emotional considerations.

The much troubled Alitalia is one example. National carrier for Italy, Alitalia is now being investigated regarding \$1.1bn worth of bridging loans from the Italian government by the anti-trust watchdog for the European Union. The European Commission is reported to be concerned the loans were excessively large and was not paid back within six months. Thin margins demand national carriers must find means of offering a more luxurious experience than the budget airlines that people are willing to pay for. If this is unobtainable the likes of British Airways need to undertake consolidation on a similar scale to that which took place in the United States. Without the restoration of consistent profitability, the number of days of flag carriers have remaining is likely to be small.

Consolidation is reaching logical limits in the United States – Europe will likely follow

Notorious for failing to make any money on a regular basis, the global airline industry has experienced extensive consolidation, especially in the United States. Only four airlines – Delta, United Airlines, Southwest Airlines and American Airlines – now account for approximately 80% of the market. Whilst consumers have complained about bad service, limited number of flights and on many routes the near absence of choice, the airlines themselves can now expect to make profits – something that has not been true for the industry since the budget airline era began. Margins at the leading US airlines are reportedly twice that of leading rivals in Europe where mega-mergers have been far less common. Low aviation fuel prices enabled major US players to improve profitability due the relative lack of competition. Conversely, much higher degrees of competition among European based airlines caused prices to fall following drops in fuel prices. Wafer thin margins ensure all but a select few airlines based in Europe are unlikely to make money.

Further consolidation in the United States is unlikely – rather, pressure to open up the market to new entrants is building; whether that takes place or not remains to be seen. Financial pressure will probably motivate leading European carriers to seek much more extensive consolidation than has so far been achieved. Bankruptcies should help to engender a sense of urgency around consolidations. The demise of Air Berlin has resulted in valuable assets coming up for grabs. Lufthansa, another airline to have been battling low-cost airlines, won approval to takeover Air Berlin's regional carrier Luftfahrtgesellschaft Walter (LGW) after the company agreed to buy fewer landing slots at Düsseldorf airport than originally planned. Similar sales could take place were Alitalia to go under, which is now a very serious possibility. Air Berlin had been attempting to become a network carrier to compete against Lufthansa. Now the former has been purchased, a smaller number of players in the German airline industry will reduce competition slightly, improving the financial prospects of the current leading players.

Figure 2: Air Berlin



SOURCE: Fast Company

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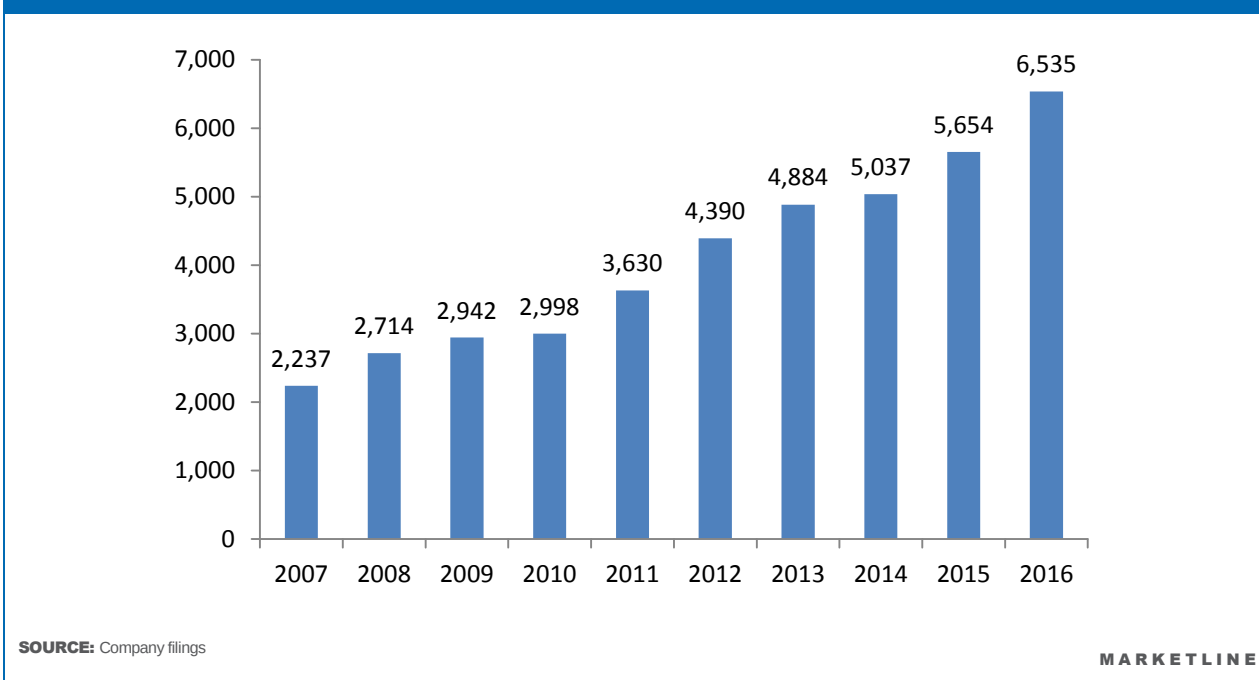
A force of resistance could come from regulators. Whilst the extent of consolidation in the United States resulted in CEO of American Airlines Doug Parker asserting his company will never lose money again, European regulators are much less likely to allow the same degree of consolidation, even if the prize for doing so would be an industry in which the principle players are consistently profitable. However, just as has occurred in other forms of travel (specifically trains, in which the merger between Siemens and Alstom was allowed in response to a mega-merger in China), regulators will need to look at the broader international situation. Airlines will not take kindly to being prevented from accessing the same economies of scale rivals overseas can access. The SkyTeam alliance - Air France, Delta Air Lines and China Eastern Airlines – have engaged in share swaps to strengthen the position of the trio in the global industry.

Ancillary and additional charge revenue becoming more important to airline balance sheets

Over the past couple of decades the downward pressure on prices has forced airlines to place greater emphasis on gaining revenues from ancillary services such as fees from checked bags, meals, seat upgrades, entertainment and others. To keep costs down major airlines are using third-party channels. United Airlines is using this method, seeking to expand the use of the company website and mobile applications to improve sales of additional services. Revenue from this source is already valuable: the following year after the creation of American Airlines Group, American Airlines registered revenue from ancillaries of \$4.6bn. The true amount airlines receive in revenues from this source is believed to be much higher. Official figures are reduced somewhat by passengers choosing to use airline-branded credit cards to avoid baggage fees.

The Bureau of Transportation Statistics (BTS) annual report in the United States revealed US airlines collected \$2.9bn from reservation fees. American Airlines accounted for \$878m; Delta was in second place, bringing in \$830m during 2017. “After-tax net profit as a group” according to the US government was achieved for the fifth consecutive year last year. Airlines outside of the US are enjoying significant expansion in revenues garnered from additional charges and ancillaries. Ryanair is one such company. Last year ancillary revenue expanded by 13% to reach \$2.1bn, accounting for 27% of total revenues. The company expects that figure to climb to 30% by March 2020 and claim to be on track to achieve that target. Ryanair Hotels and Travel Credits, Ryanair Car Hire and Ryanair Transfers are all intended to persuade passengers to spend more time and money using services provided under the company. Were Ryanair to grow as expected, the company will move away from being a pure airline to working throughout the travel and tourism industry.

Figure 3: Ryanair net income 2007 to 2016 (EURm)



Whilst airlines make billions of dollars from extra charges, some concepts have largely failed. Gogo went public in June 2013 at \$17 per share, reaching \$33 six months later before the share price entered a long period of steady decline. Currently shares are trading at less than \$6 per share. The airline was built upon the idea that passengers would be happy to pay more for a Wi-Fi service whilst airborne than use a cheaper airline without internet access, but the company has failed to recover the costs of running the service amid extensive problems over both speed and reliability. Failure of Gogo to become a major player in the industry reveals some of the problems of building a company upon ancillary revenue. Many passengers may be happy to pay for some additional services, most are satisfied with getting to their destination with the minimum of fuss and at a low cost. Airlines will have to keep in mind that despite the rising importance of ancillaries to the balance sheet come the end of the financial year, the delivery of a good service is paramount for most passengers.

Online platforms now attracting large investments from leading players

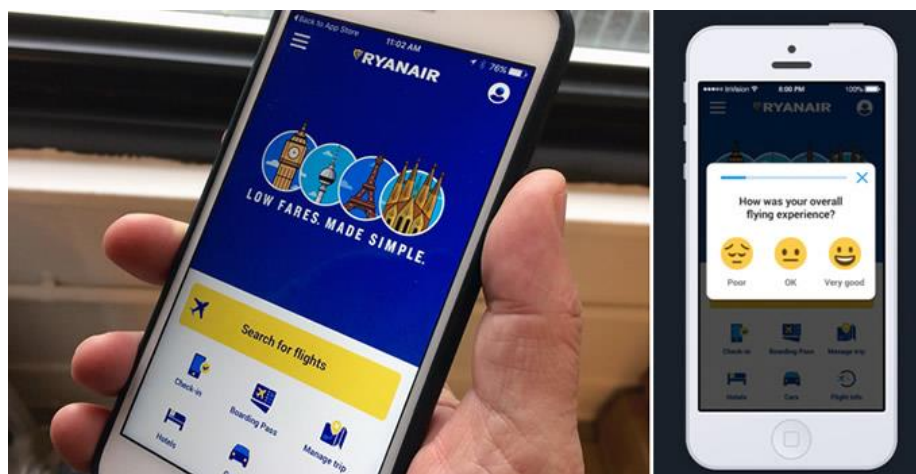
The rise of internet shopping has enabled airlines to reduce costs by automating systems that previously were relatively labor intensive. Now, having an online presence that customers find easy to use and can be easily explained is of great importance – even more so since airlines have received sustained and heaping criticism for not being clear about how much a flight would actually cost, only revealing the true price at the end of a lengthy purchasing process. One such company was Ryanair. The company was chastised for advertising prices that only a small number of people under very specific circumstances could possibly access. For the vast majority other charges soon inflated the actual cost of a flight far beyond what they believed would be the case when the process of buying tickets online began.

Last year Ryanair announced more than one billion visits had been made to the company website – the first time the company had achieved the landmark figure, making it the most visited airline website in the world. Ryanair claims this is more visits than Lufthansa, British Airways, Air France, KLM and Iberia combined, suggesting the mobile app and website are popular among consumers. Indeed, the app is the most used travel app in Europe according to the Irish registered company. Cementing a position as a leading player in Europe is now the primary aim, ushering in an effort to create a company that does a whole lot more than simply flying passengers around the world.

In creating the MyRyanair platform, the Irish airline is seeking to become the Amazon of travel. The offering grants passengers the chance to create a personal profile with the site and app, storing payment and passport details securely.

Designed to be smarter and more user friendly than anything the industry has so far experienced, Comtrade (the company behind the software) estimates 36,000 man hours were invested into creating the system. According to Comtrade, the system can fill four 737 aircraft every minute at peak times. Best of all from the position of Ryanair, the system can be expanded relatively easily if demand rises.

Figure 4: MyRyanair App



SOURCE: Airline Trends

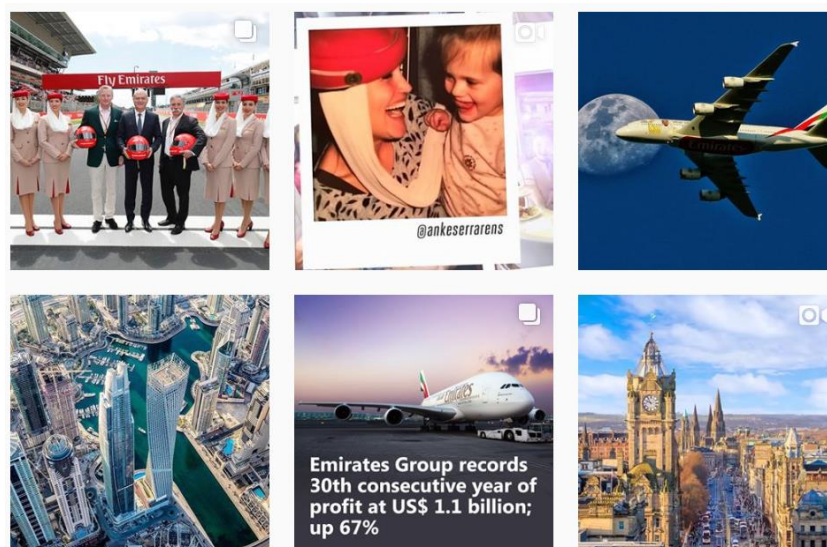
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For leading companies now is an important time: get left behind now in the technology arms race and it could take many years to catch up again. According to a survey carried out in the United Kingdom by independent comparison site compareholidaymoney.com 80% of people now book holidays online, meaning they also book flights online. Consequently the importance of online platforms to airlines is only likely to rise, causing many to predict the downfall of the travel agent.

Airlines are harnessing social media in bid to attract larger audiences

Widely recognized as being a critical tool in the creation of brand image, social media poses threats as well as opportunities for airlines. Carefully crafted perceptions of a company can be destroyed in an instant by one unhappy customer whose social media output manages to capture an audience. One post can now attract worldwide interest, and grave damage can be inflicted even when large numbers of people rush to the defense of the airline in question – such as when in March 2017 a row over the dress code for those travelling on 'Buddy Passes' with United Airlines blew up. The industry is particularly sensitive to social media, hence why now so many are ploughing a great deal of effort into establishing a positive presence online. For many people, even in the budget airline era, airfares are a major discretionary purchase, and once customer loyalty has been lost it is exceptionally troublesome to regain it.

Figure 5: Emirates Instagram page



SOURCE: Instagram

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The industry as a whole is now treating social media as though it was a vital component in persuading passengers to part with their money. Speed of response is an important barometer on performance. Automated responses will not do for customers who demand empathy in their interactions with brands, forcing airlines into employing people to cater for queries which could often be dealt with by computers. Here, word of mouth is important. Positive experiences with an airline in the online realm are likely to be talked about in a social context, improving the brand perception of a particular airline. Similarly, bad experiences often spread with speed, deterring new customers from even considering using certain airlines due to stories told to them by friends or family. During times of crisis social media is playing a greater role. Tony Fernandez won plaudits for his tweets following the crash of Flight QZ8501 into the Java Sea during 2014.

Predicting what is going to be important to passengers is becoming an increasingly tricky task now customers can easily communicate complaints. Recently United Airlines, the fourth largest airline in the world, changed the range of drinks available on flights. The company could be forgiven for believing a minor change would likely go largely unnoticed by all but a small number – a fierce response on social media forced a swift reversal. However, that does not mean airlines are going to be in a rush to please every customer. Most who make a complaint merely seek more information or reassurance, meaning airlines are not doling out free flights for fear of a comparatively small complaint blowing up on social media into a big media story. Even then, for most of the time only around a quarter of interactions online warrant a response.

Airlines such as Qatar and Emirates are increasingly reflective of the tone the industry is attempting to strike online. Both are about selling the experience of travelling overseas rather than becoming best friends with passengers. Neither attempts anything fancy, choosing to focus upon making using the airline a desirable thing to do. So far the strategy has proved simple but also very affective. The whole industry is predicted to pump much more resources into interactions via social media over the coming years as customers increasingly use that medium as a means of communicating with an airline.

HOTEL MARKET NOT CHANGING AS DRAMATICALLY AS ONCE THOUGHT

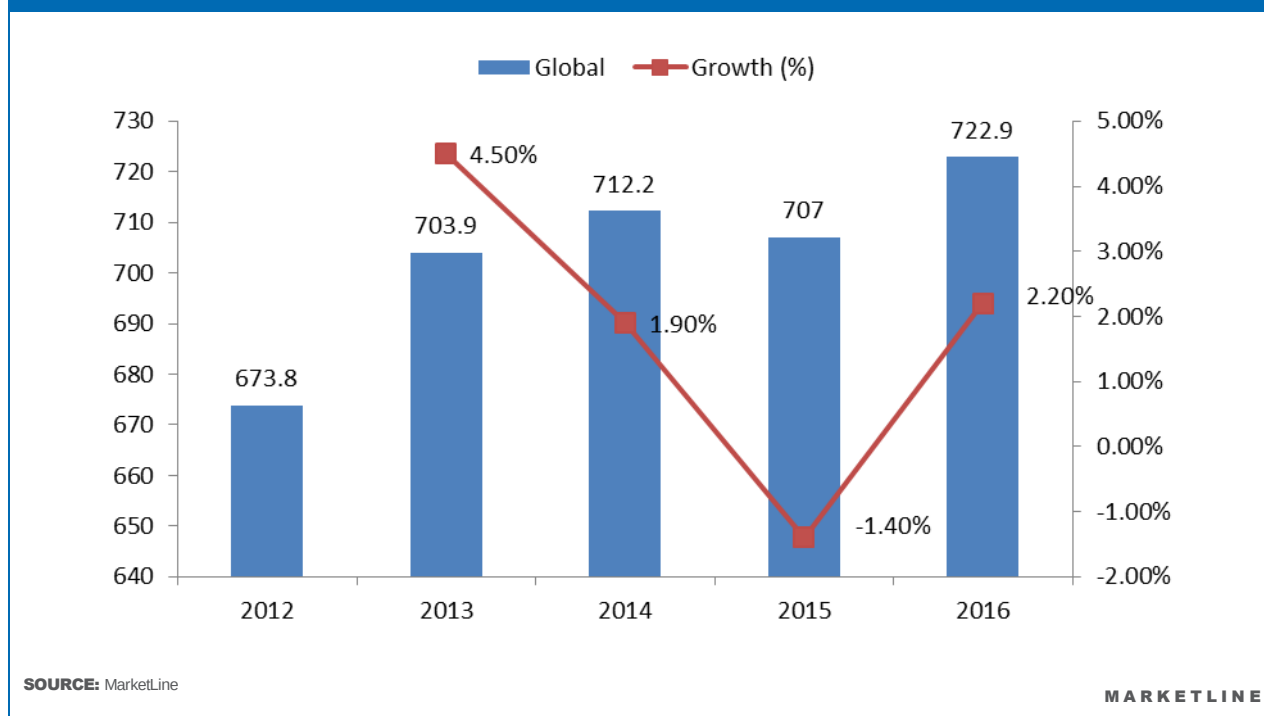
Many have alluded to the rise of Airbnb as indicator of the end of the dominance of the big hotel chains and Airbnb has brought some changes to the industry, but ultimately the big hotel chains are growing regardless. The future of the industry is likely to include Airbnb as a significant player that offers the most rooms, but Airbnb is best viewed as more of a marketplace for property owners than a hotel industry threat, because they operate in very different segments. Despite this though the future of the hotel industry will require some flexibility and change on the part of the hotel industry, because there are some new requirements coming from younger generations and from business customers that want more leisure and experiences built into their hotel stay. This requires expensive redesigns of some chains if they intend to cater for this trend.

The global hotels market is growing quite well driven by key trends in technology

Research from MarketLine has shown that globally the hotel industry is producing fairly reliable growth despite the fact that some years have been difficult, in particular 2015, where the industry declined slightly. Overall however, the strength of the global economy and incredibly important role that travel and tourism plays within that global economy means that the hotel market is doing well as a result. The big hotel chains have seen prolonged periods of growth in their bottom lines. Generally, the name of the hotel game has always been finding ways to maintain high occupancy rates and the future of the industry will undoubtedly include this as a key premise. The things that are changing in the industry are how customers interact with hotels and book their services. 50% of all customers now book their hotels online and they increasingly want to be able to do everything using their mobiles within hotels.

This includes apps to order hotel services, check- in and learn about the facilities and things to do in the local area. Services such as Wi-Fi are a given now in modern hotels and fully expected to be present by modern customers. Providing these kinds of services is not easy and it taxes hotel companies trying to find room in their budgets to deploy sophisticated apps and technology services, not least to fund the price comparison site commissions required to get customers in the door. As a result, in order to fund these kinds of extra services and renovating hotels to fit in with more modern tastes cost cutting is essential and as a result there has been a great deal of consolidation, seen with the huge Marriott-Starwood merger of 2016. The hotel industry does have to deal increasingly with the high cost of real estate globally and hotel chains have moved to franchise models in order to avoid the significant problems of acquiring suitable land for hotel space. The issue with this model is that outside partners are needed to fund the building of hotels and so growth can become dependent on external factors, however it does free up the hotel chains to focus on their core product of running hotels, rather than dedicating significant resources and time to acquiring and planning for potential new hotel sites.

Figure 6: Global hotels and motels market 2012-2016



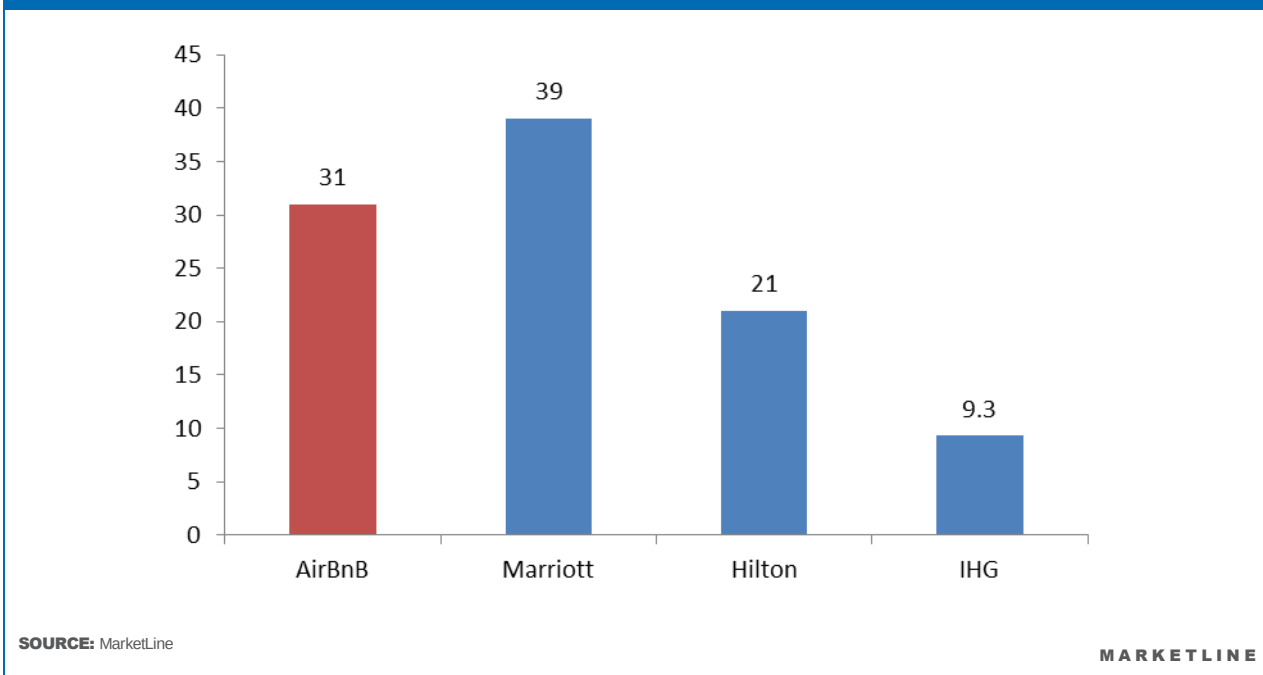
Global occupancy rates are good particularly in Europe and Asia

Generally, around the world occupancy rates are over 60% in the industry, but the most reliable areas are Asia and Europe where occupancy rates were at 68% in 2016 and in Europe this is also linked to high average prices per room too of around \$139 per room per night. The importance of the travel and tourism industry, in that it accounts for around 10% of global GDP is only set to grow and so the future of the hotel industry is generally bright. The future of the industry is going to continue to be based around hotel fundamentals, such as convenience, internet, comfortable beds, good rooms and excellent locations.

The UK is about to experience a large spike in room numbers

Curiously, despite the concern over Brexit and the relatively uninspiring levels of economic growth, the numbers of hotel rooms coming into service in the UK is about to boom. For 2018 the total number of new rooms becoming available is expected to total 9000 which is a very large amount, considering that during the London 2012 Olympics games the total added was 8000 in this boom year. This is a little concerning for the UK industry for two reasons, firstly revenue per occupancy for the industry will undoubtedly drop in 2018 should final completed build numbers be this high and secondly the average daily rate is under threat because inbound tourist numbers are expected to get weaker indicated by higher forward booking cancellations in 2018. Some positives for the industry though come from individual events that will attract large numbers such as the Royal Wedding and Terracotta Warriors display that will both have an impact on 2018 numbers.

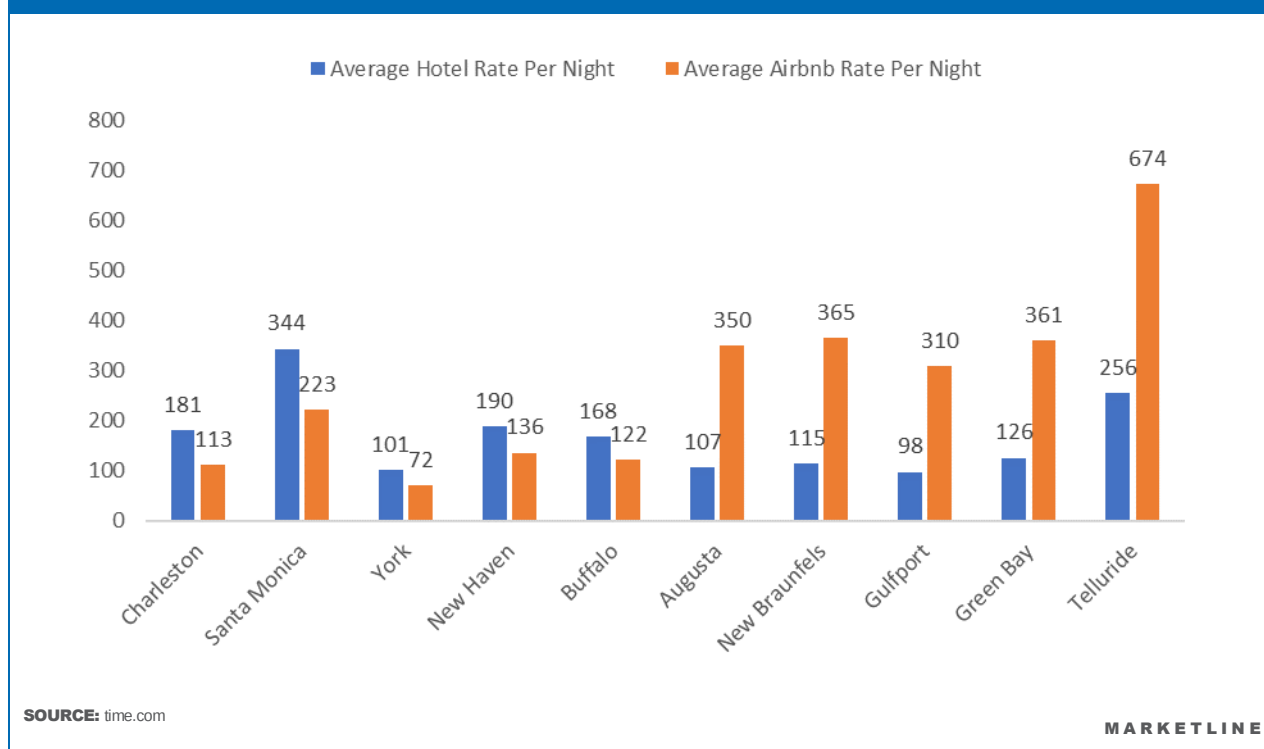
Figure 7: Hotel chains and Airbnb valuation compared Sept 2017 \$bn



Airbnb is a popular phenomenon, but hotels are strong regardless

Airbnb is considered to be the biggest potential threat or newcomer to the hotel industry and Airbnb has been transformational within the hotel industry, finding new ways to access space and sell to leisure and holiday clients. The main benefit of the company's services is the ability to provide unique and unusual spaces for people to stay in that are different to a classic hotel arrangement and customers deal directly with a local owner. This correlates with the experience trend in the industry where tourists are looking for a unique life experience in their holidays. However, the threat from Airbnb to hotel companies might be overstated. So far Airbnb has only really been relevant to holiday customers which make up 90% of its business. These customers are looking for a particular city break or type of experience and certainly that development is eating into some hotel business, but hotels generally have an appeal across the board to all types of travelling clients from businesses to city breaks to package holidays and Airbnb doesn't have this kind of across the board appeal to a variety of customers. This is because its experience cannot be made uniform and often the service from owners is non-professional. There is a perception that Airbnb is better in raw price terms than a hotel, but the reality is that it completely depends location to location.

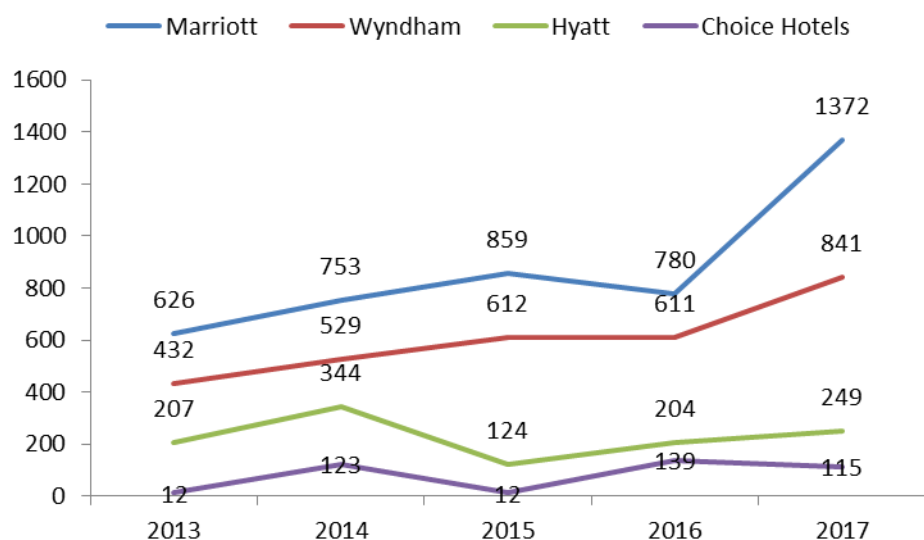
Figure 8: Airbnb and hotel prices compared in US cities \$



Airbnb can never standardize its service the way hotels can

Furthermore, Airbnb requires a customer to build their own holiday, book their flights and make all their own arrangements and there is still a significant portion of customers that still use travel agents and organizers to configure this for them, coupled with all the infrastructure, advertising and marketing that travel agents provide. Also, hotels provide a kind of uniform service where the general standards are known and fit into a brand image and Airbnb could never replicate this because every space is unique. The strength of this element is typically understated, because across many other industries this principle continues to guide consumer choices in a significant way. Ultimately the best way to analyze the rise of Airbnb is to consider it as an online market place that matches owners of property with clients and as such this facility has always been around, with buildings having been available to rent in this fashion. Airbnb has found a way to consolidate this type of product under its own banner, but many in the hotel industry actually feel that Airbnb and hotels actually operate in a different business segment because of this.

Figure 9: Net income of the top public hotel chains (\$m)



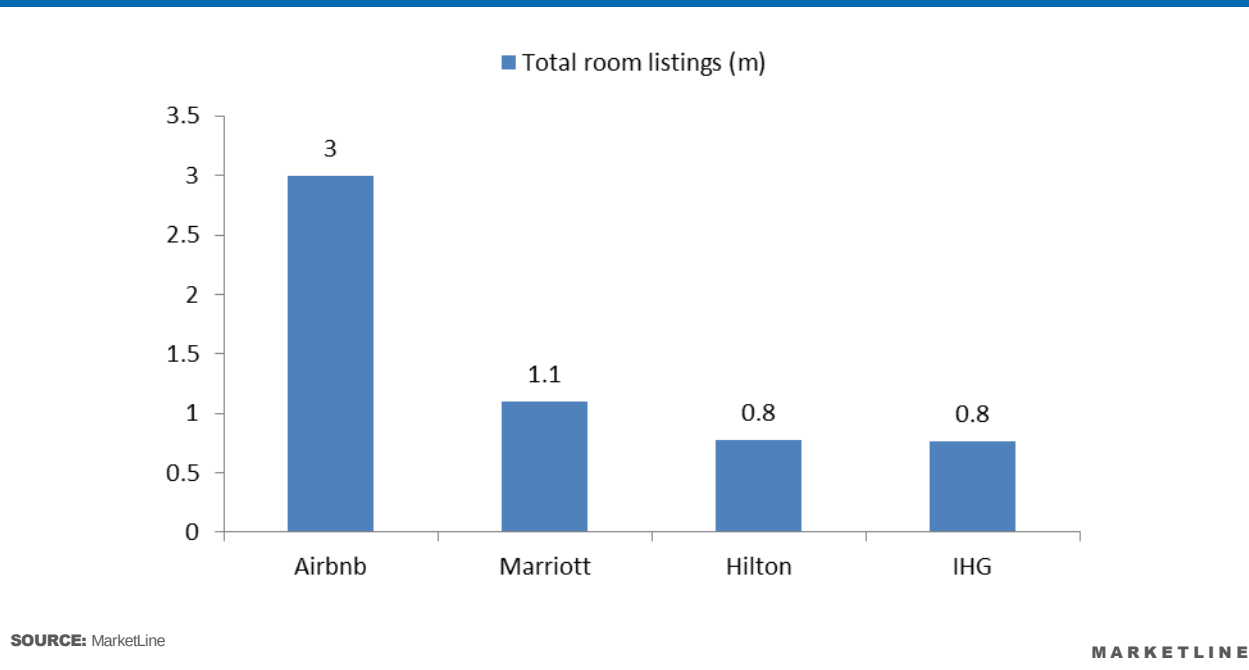
SOURCE: Company Financials

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Airbnb is trying to move into the enormously lucrative business space

Airbnb is expected to go public within the next few years and key to that move is securing more reliable revenue streams. Within the hotel industry the importance of the business customer is paramount because it means repeat, reliable and consistent business. Airbnb has recognized this and is attempting to target business customers too. The service includes ways that companies can sign up with Airbnb and use online tools with its easy business account payment services and software to help track travel expenditure. Convenience is a critical part of the way the business traveler segment functions and Airbnb are right to provide a package that helps provide this. However, this online software is far from enough alone, hotel companies have spent years honing the best way to attract business customers and entire hotels are dedicated and designed to this end. So far business clients are a small part of the company's business, but over 250,000 companies are said to have signed up to use the service, which is promising. This is the real potential threat to hotels, if Airbnb can take business clients away from the big hotel chains they will suffer very quickly. In terms of the future of the industry, there is increasingly a fuzzy line developing between business and leisure customers in the hotel industry and business clients do want to increasingly have holiday experiences whilst they are away with business commitments and this does bode well for Airbnb.

Figure 10: Hotel chains and Airbnb total room listings millions



Airbnb might need to consider a substantial rewards system

So far, the hotel chains rewards systems have proved to be invaluable within the industry. These rewards systems keep their customers loyal and coming back. This is of particular relevance to business clients that have large number of bookings per year and can gain significant extra benefits from always choosing one particular hotel chain. It continues to be a unique quirk of the hotel industry and the hotel chains compete heavily to offer the best comprehensive rewards package and lock in their customers to their chain. These systems include a variety of reward elements such as spa treatments, car rental, flights, holidays and a great deal of other bonuses for consistently using a particular hotel chain. This system of course only works if a hotel chain is sizable enough to offer hotels in most major destinations, because if a customer has no available hotel nearby to their business destination they will have no choice but to go elsewhere.

So far Airbnb has no answer to this particular benefit and it will need to build some significant extra benefits that go well beyond a convenient online software package if it wants to compete with the likes of Marriott, that offer a wide array of benefits. Overall, it does not look likely that Airbnb will ever truly put a dent in the business segment, because it won't ever be able to guarantee professional and reliable levels of service because it doesn't own the facilities. Airbnb facilities owners are able to cancel bookings at a whim, they might have jobs and commitments which mean they cannot always be available to help or serve a client and Airbnb has no way of guaranteeing the standard of the facilities when guests arrive because they have no staff on the ground to check standards. Business clients require all this and more and there doesn't appear to be a path open to provide this in future. We are likely to see multiple Airbnb copycat companies arising in future and these will begin to erode the company's rapid growth as different business models are experimented with.

There has been a boom in hotel booking websites, which have considerable power

Comparison websites in general have had a significant effect on multiple industries, but one industry where the effects have tended to lean towards the negative is in the hotel industry. Powerful industry websites have begun to emerge that hold considerable power over both hotel operators and consumers, such as Booking.com, Trivago, Expedia and Lastminute.com.

Typically, these sites provide a highly visible online web platform service where hotels and rooms are advertised directly to consumers who can compare multiple hotels and room options in one place. The benefit to the consumer is that they can browse options in a single website, rather than trying to find individual hotels through their websites or a travel operator. There is a healthy competition between sites, but the costs to the consumer and the hotel operators is significant. Booking.com operates a sliding commission service where operators choose the amount of commission they give to the site and that commission rate determines just how visible a room is on their site affecting the number of potential views.

An average commission is around 15%, stretching up to rates as high as 25% per booking. Hotel operators in today's climate have little choice but engage with these websites because in the competitive hotel industry and with large room capacities to get filled, hotels can't afford to ignore these methods of increasing bookings. The problem is that these sites significantly erode a hotelier's profits, meaning that ultimately despite the inherent competition of being on a price comparison site, hotels have to increase room prices to cope with these added financial pressures. Typically, a large hotel chain with brand presence can absorb these costs relatively easily, but smaller operations are squeezed by this new environment. These sites are likely to increase their hold on the hotel industry because hotels need to fill rooms gives them significant power and consumers use their services at an ever-growing rate. This additional pressure is very likely to increase the rates of consolidation in the industry in the future and the need for big brands that can better absorb the costs and can draw clients directly rather than through comparison websites will increase.

Attracting millennials to hotels is entirely possible with some changes

Much has been made about how new generations of holiday clients are moving away from traditional hotels and using services such as Airbnb much more. However, there is plenty that can be done to capture the interest of younger generations of clients. Multiple hotel brands have been lining up new chains to focus on capturing the attention of Millennials. What has emerged is that there are perfectly sensible ways to attract the generation to hotels but, they should not be expected to have completely different needs entirely to any other generation. For instance, the Ace Hotel chain focuses very heavily on the lobby area, making it as attractive and unique a place to be as possible, with high end coffee served and quirky antique furniture designed specifically to appeal to millennials. This strategy has been successful at making the lobby a very popular and fashionable place in the cities where it has been setup, but there has been less focus on the rooms themselves and the type of overall service that millennials want, which is not so different to the generations before them.

Figure 11: Hilton Canopy hotel room, Reykjavik



SOURCE: CN Traveler

MARKETLINE

Hilton's Canopy brand, which was several years in development, instead focuses on what the specifics are that millennials want from an entire hotel stay and they are very simple according to the brand's research: free Wi-Fi, free breakfast and in room fridges to go along with the traditional hotel satisfaction drivers which are room, check-in, and greeting on arrival. What this taught Hilton is that super luxury lobbies and gimmicks are not as important as the hotel fundamentals, such as getting the room layout, facilities and furniture perfect and Hilton has really developed the room itself to appeal to the age group.

The point to make here is that millennials largely want similar services to previous generations, they care about 24-hour check in, warm showers and comfortable beds, but certain particular tweaks can help businesses to become more appealing for millennials both during recreation and whilst on business. Here two different approaches have shown that millennials do not have radically different demands and hotels can appeal to them. The idea of providing an "experience" is important but not always relevant and sometimes small tweaks such as fashionable lobbies, food and locations can be enough to bring in new custom. Businesses that focus on providing some radical new hotel experience in favor of getting the hotel basics correct are likely to struggle because their experience might not have any longevity or repeat appeal.

PEOPLE ARE GOING ON DIFFERENT TYPES OF VACATION, CHANGING THE MARKET

Not regarded as a market prone to sudden changes, vacations have been experiencing gradual development of late due to adjustment to developing consumer tastes. Now a growing part of the market and attracting investment, cruises are attracting new audiences. Package vacations have survived numerous dips following terror attacks around the world, and appear set to remain the mainstay of vacations. The market is adapting to the rise in solitary travelers and continued popularity of short-term city breaks, marking a departure from the traditional two-week vacation. Those companies best able to survive the transition to modern consumer tastes stand to prosper over the long-term.

Helped by growing interest from new markets, cruises are attracting enough attention for the fleet to expand

According to trade group Cruise Lines International Association, during 2016 the number of Chinese going on vacation at sea doubled, reaching 2.1 million. Rising passenger numbers from far-east markets has initiated a period of cruise ship building; Norwegian Joy was constructed by Meyer Werft in Germany in response to greater Chinese demand. Investment in cruise ships to cater for the emergence of China and other countries in the region suggests passenger numbers will continue to expand rapidly for quite some time to come. Large sums of money are required for such vessels to be laid down, and running costs are frequently very large. Financial failures involving cruise ships are often vastly expensive for investors, deterring further investment unless confidence of receiving a return is high. Expanding interest should mean more new vessels are built, rather than companies pursuing safer alternatives such as using older vessels from the west. New ships, such as Norwegian Joy, are intended to satisfy local tastes. On-board shops are much larger than normal, as is the casino. This should help secure the required passenger numbers for profitability.

Figure 12: Fincantieri shipyard, Trieste



SOURCE: Pressmare

MARKETLINE

China is not the only country to have attracted investment into expanding the fleet. During 2015 MSC Cruises began to expand ship numbers through a total investment of \$5.7bn. The new ships are being made by Fincantieri. The Italian shipyard had 14 under construction during 2015, a marked difference to 2009-10 from when the shipyard was operating at only half capacity. Now operations are close to full capacity. Furthermore, Silversea Cruises recently announced an investment of \$385m into another ultra-luxury cruise ship to be built at the Fincantieri yard, due for launch towards the end of 2021. The sister ship is expected a year before. Large investments of this type reveal confidence in the cruise ship idea to be high, both among cruise ship company boards and shareholders alike.

However, with Chinese tourist interest helping to drive the market onwards, Chinese ship builders are seeking to gain market share. Not normally associated with cruise ship building and more used to carriers and tankers, China State Shipbuilding Corporation struck a deal with Fincantieri for the purposes of serving the Chinese operations of Carnival.

Europe remains the hope of cruise ship building, a state of affairs reflected by the growth in passenger numbers seen across the continent. In the United Kingdom the average age of passengers dropped to the lowest point in two decades during 2017, and a record 1.7 million passengers went to sea according to the Cruise Lines International Association (CLIA) that year. Common perceptions such as the average passenger being relatively aged are increasingly being proved false. Princess Cruises expects in 2018 the number of under 18s to have doubled from 2015; those in the 35-44 year-old age group are also forecast to expand rapidly during that time. Given the wide variety of locations cruise ships go to – including Norwegian fjords as well as the Mediterranean Sea – the cruise line section of the travel and tourism market stands to gain from the growth of experiential travel that has proven to be popular among younger generations.

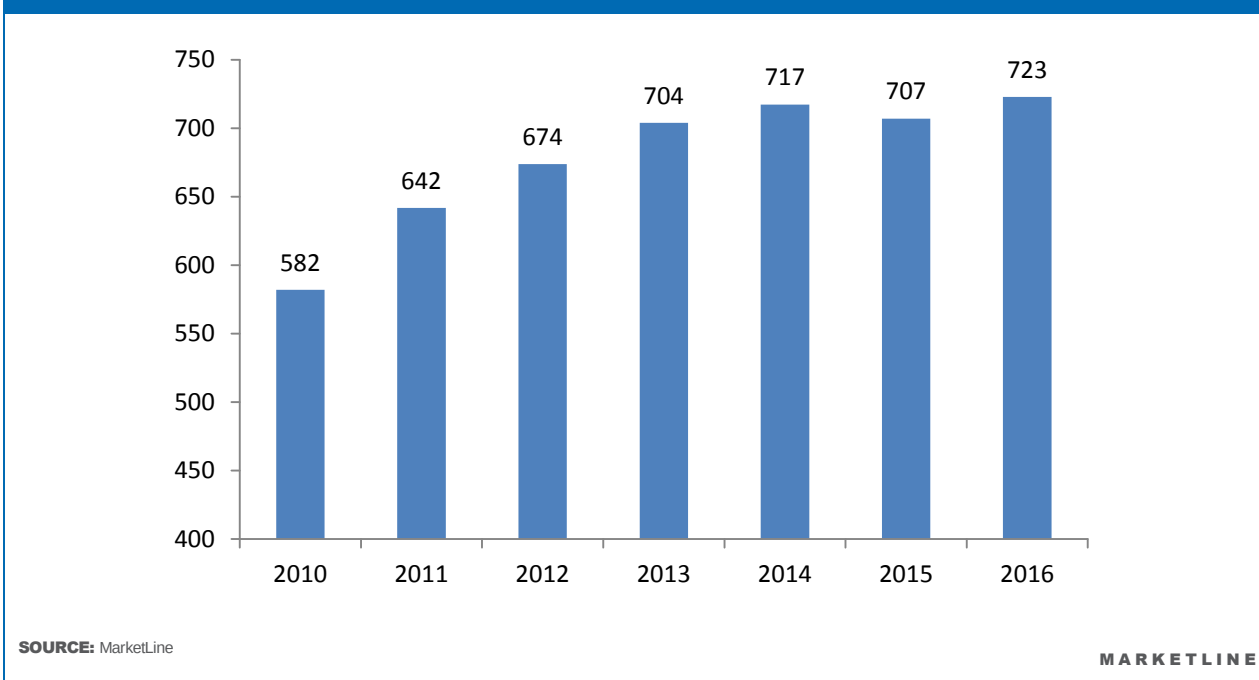
Cruise ships have also benefited from international events and the regional economic situation in Europe. Most people are still seeking to maximize the vacation experience for as little cost as possible, even nearly a decade on from the global financial crises of 2009-09. Terror attacks in traditional tourist hotspots such as Morocco still deters many from visiting. Cruise ships not only offer good value for money but largely avoid geopolitical problems. Many who go on a cruise report the ease and convenience of that style of vacation served as a major motivating factor. Confidence in rising popularity was exhibited by the creation of a \$91,000 cruise offered by Viking Cruises, which will visit 59 countries and stop at 113 cities and ports. Only if long-term prospects were buoyant would companies take the risk of finding enough people willing to pay so much money for a cruise.

Prone to fluctuations caused by outside influences, package vacations are here to stay

The package vacation has to some extent been forgotten due to the expansion in city visits and movement towards experiential holidays rather than conventional two-week stays through a package vacation. Founded in the 1970s, the future of the Thomas Cook run '18 to 30' club is now shrouded in doubt. The company wants to concentrate on the recently created 'Cook's Club' brand that is designed to be of appeal to millennials. Despite being the most recognized brand in package vacations, the appeal of the 18 to 30 club has gradually eroded following the formation of adverse perceptions among the wider public and popular destinations. No longer are the younger generations as interested in picking package vacations specializing in bar crawl focused fun, according to the travel company. Instead the impact of social media now dominates. Many now focus upon the online reaction to photos of a vacation on social media rather than quality of the nightlife.

A problem this segment of the travel and tourism market continues to face is the impact of international affairs on the confidence of people to book package vacations. Most people who book such vacations through Thomas Cook and others do so for the ease, convenience and safety such an option provides. Political upheaval in Turkey resulted in a dramatic decline in visitor numbers, but during 2017 people from the UK returned. According to Thomas Cook, package vacations to Turkey were up 84% compared to the year before; 61% of those making bookings were families, many of whom were said to be returning to the company to book further trips. Egypt is another example: the number of visitors from the UK on package vacations grew by 89% last year despite there still being no direct flights to the Red Sea resort of Sharm el Sheikh. Despite all the political troubles to have afflicted popular destinations, a report by the Association of British Travel Agents last year concluded packages "remain the single most popular booking option for foreign holidays". As an idea, the package vacation is regaining popularity.

Figure 13: Global hotels and motels value (\$bn) 2010 to 2016



One survey carried out by the Association of British Travel Agents (ABTA) found 51% of respondents booked a package vacation during 2017. Crucially, this type of vacation has proved popular among many sections of the demographic. Families remain loyal; 62% who were categorized social grade A (affluent households) booked a package last year. Even though Turkey and Egypt have recovered somewhat, Spain has cemented its position as the most popular destination for package vacations. Competition in such locations has increased, exerting downward pressure on prices and forcing leading players to find more means of reducing costs to maintain margins. The sector in the United Kingdom became saddled with excessive debt in the 2000s, forcing closures of shops as customers moved online. Between 2008 and 2016 a combined \$5bn was lost in write-downs by TUI and Thomas Cook, wiping out profits. Forcing prices down, therefore, will not be an easy undertaking but is necessary to keep customers coming back amid increased competition.

Leading players are now seeking to take advantage of the more affluent Chinese consumer. Whether the new joint venture will succeed in its aspiration to sell the package vacation to the far-east remains to be seen, but if popularity is found this particular segment of travel and tourism will likely experience substantial growth. Registered in the Shanghai Free Trade Zone in 2015 by Thomas Cook Group and Fosun International, Thomas Cook China hopes to take advantage of a move away from group tours and towards more personalized experiences. 90 holiday offerings across over 40 destinations including South East Asia, Europe and the Americas were publicized at the launch in 2016. The coming years could be highly profitable for package vacations providers if the plans of Thomas Cook succeed.

More people are choosing to travel alone, changing the focus of the travel and tourism market

More people are travelling alone than has ever previously been recorded, and the change in habits will incite change in how the travel and tourism market sells products and what products are available. Traditionally people have travelled in pairs, families and sometimes in groups. Solitary travelers often face higher costs, making it more economical to travel with others. Now that is changing. When expedia.com.au examined the habits of users, the website found that for the most popular tourist destinations in Australia demand from single travelers had soared in 2017 compared to 2016 figures. Queensland received 30% more solitary tourists; 15% on the Gold Coast. The 2018 Travel Trend Report on Pinterest backs up the findings, claiming the number of people who want to take on a large adventure by themselves had expanded by almost six fold. Although those seeking adventure has risen substantially, security remains a primary concern. Companies able to provide security along with trips to unusual or exotic destinations are best placed to take advantage of the surge in people wishing to travel alone.

The expansion is not accounted entirely for by the groups traditionally associated with travelling alone on a budget – young backpackers and veteran travelers. The Visa Global Travel Intentions Study carried out in 2015 collated the views and habits of more than 13,000 travelers concluded there had been expansion in numbers across the whole age and gender demographic. The study found that one in five travelers had gone the solo route on their most recent leisure trip, and over a third of first-time travelers choose to hit the road on their own. Even the over-45 age group registered a small but noticeable increase.

Figure 14: Traveling alone growing in popularity



SOURCE: Huffington Post

MARKETLINE

The rise in solitary travelers has been encouraged by the expansion in the number of people living alone. Similarly, vacations are not the only area where the rise of the lone customer has been registered. Online reservation service OpenTable in the United States performed analysis that revealed reservations for one increased by 62% between 2013 and 2015. Expansions such as this suggest the rise of lone travelers is a trend that is due to continue rather than decline. Vacation companies are focusing more and more upon the needs of this group. Many now host convivial dinners each night for guests going it alone. Further changes will have to occur for the lone traveler not to be deterred by costs even though that group is expanding in number. More single bedrooms and services catered towards the needs of single people will require investment, something that will only happen on a large scale if the current trend is sustained.

Changes, however, are already taking place as companies seek to gain the attention of people going on vacation alone. Riviera Travel introduced solo cabins with no single supplements across their river cruise program and due to demand. According to the company 18% of people who travel with them now do so alone. Signs are such investments will be worthwhile. People who have traveled alone before will be used to paying a premium for doing so, but services catered to their needs should bring costs down, encouraging more vacations by single people to be booked. For the return to profitability of Thomas Cook – a company that in 2013 lost £586m (\$901m) but during 2015 and 2016 registered a small profit – to be sustained, individual travelers represent a major opportunity for growth. It is one leading companies should focus upon to secure long-term return trade.

City trips are set to dominate travel and tourism for a long time to come

For a long time the ordinary person went on holiday for two-weeks at a time, but the rise of the city break changed much about the travel and tourism market.

The rise in popularity of these trips has boosted the number of vacations people take each year; in the United Kingdom 45 million foreign vacations were taken during 2016, three million more than the year before and only just half a million short of the figure recorded before the global financial crisis of 2008-09. The extent to which the city break has increased the number of foreign visits is most clearly exhibited by looking over a longer term: figures from the National Office for Statistics (ONS) reveal in 1996 just 25 million foreign trips were made from the UK. ONS figures also state seven to 10 day vacations now outnumber 14-day breaks. Even as far back as 2013 ABTA reported 41% of those surveyed intended to take a city break at some stage in the next 12 months; since then that figure has risen to 53%, beating beach holidays as the favorite type of holiday among UK consumers.

The linkup between Expedia and Thomas Cook substantiates the importance of city breaks to travel companies. Announced in September 2017, Expedia will be the preferred provider of hotels for city and domestic holidays. The company will also provide the booking platform for all city break and hotel-only sales for Thomas Cook in Europe. Costs for the two companies should fall due to the economies of scale and preferred trade, as well as simplifying the business structure of the vacation giant. Thomas Cook will still be very active in the lucrative city break vacation business, but the linkup with Expedia will enable the firm to focus upon selling sun and beach holidays. According to the official statement released at the announcement, the potential cost savings are significant.

Figure 15: Seville, Spain



SOURCE: Skyscanner

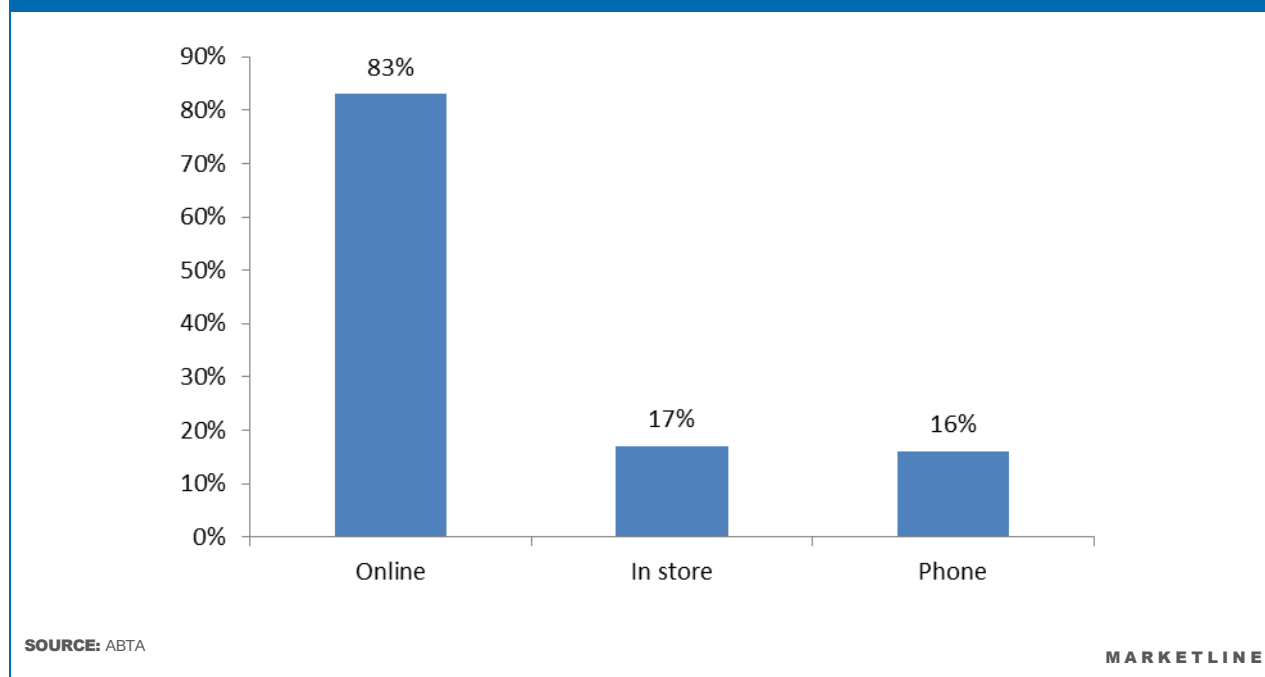
MARKETLINE

City breaks are generally more popular among younger groups, accounting for the decline in the numbers attending what are loosely described as '18 to 30' vacations. The next most popular group is those aged between 35 years and 44 years. Catering for this change in how many people go on vacation will occupy a growing amount of time and money from leading vacation companies. Whilst the city break has been good business for leading companies, it does not come without risk. City break destinations can be subject to sudden changes in fashion and political events. Were cities to experience terror attacks or natural disaster, the damage done to the popularity among tourists could be lasting. In some instances, such as after the Madrid train bombings in 2004, tourists return with relative ease; not so in other cases. For companies selling city breaks the added risk of trade for one city drying up must be countered by correctly predicting where the next popular destination will be. Succeed here and highly valuable opportunities to get ahead in the market could easily open up.

THE BUSINESS OF SELLING HOLIDAYS IS CHANGING

Increasingly the business of selling holidays and destinations has been left to traditional marketing outlets, newspapers and travel agents. However, for many this has begun to change as new types of free online content allow prospective customers the chance to get hugely in depth views and opinions of potential new places to visit from glamorous new salespeople. Effectively the importance of certain sites like Instagram, Facebook and YouTube, cannot be understated because it now propels today's customers towards a certain travel experience and it is all available free from any mobile device. Holiday companies and the travel industry at large have recognized this shift and are now doing what they can to get their content and products in front of as many eyes as possible.

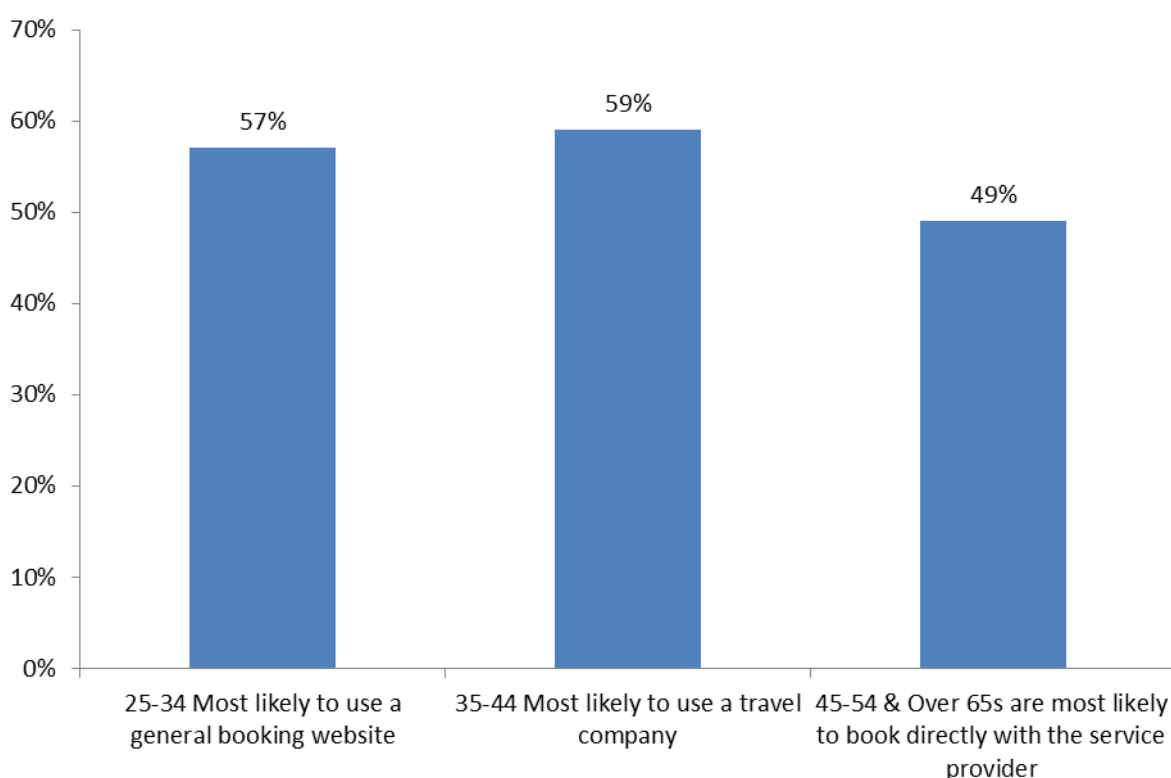
Figure 16: Survey, channel through which UK customers booked a holiday in 2017



Online is now the dominant method of buying and selling holidays

Overwhelmingly the online space is the main focus of the holiday industry now. Typically buyers browse and explore options on their mobiles, tablets and laptops and then are willing to actually purchase holidays through those devices too, rather than then visit an agent for further info. There is still a space in the market for physical location travel agents and phone bookings, as some age groups still prefer to use these methods, but they are becoming less common. The rise of price comparison holiday sites has been inexorable and many hoteliers have to deal with enormous new price pressures in order to get their product on the most visible websites. There is a strong chance that high street travel agents will re-emerge but in a new format, in a similar way to what is being seen with other retail establishments. For instance a travel agent shop that was less focused on selling and could give you an experience of the holiday itself for you to then book online in your own time would potentially work very well and with the rise of VR and AR technology the ability to experience locations, hotels and airports in detail is now entirely possible.

Figure 17: Age groups and their preferred methods of booking holidays UK



SOURCE: ABTA

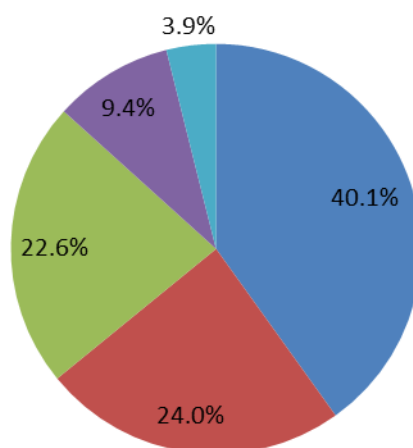
MARKETLINE

Tourist boards and travel companies now increasingly use Instagram to reach customers

The monetization of social media is a well-known phenomenon now and it is common place for popular accounts and channels to be pushing a particular brand or content. What is perhaps less well known to the general public is how successful it is as a format at targeting exactly the right kind of client and converting advertising spots into sales. This is largely because social media is less of a hard sell format where a lot of the time its users don't actually know they are looking at a product that is being advertised. Of all the formats, Instagram is perhaps the most successful at converting interest into sales and particularly for the travel and tourism industry. Because of this, 48.8% of all brands are on Instagram and user engagement with brands on there is 10 times higher than Facebook and 84 times higher than Twitter. Crucially, users on this platform are very likely to research brands on the platform and 50% of users actually directly follow brand accounts. For companies, this platform is ideal to sell on and for a number of years the trend has been moving away from traditional marketing outlets and towards selling products through these alternative channels. The beauty of using these types of advertising channels is that effectively users stumble across them themselves and get a recommendation directly from a social media celebrity that they already like. This then allows companies to directly target very specific niche groups of people that at the very least already have a general interest in the type of product being sold.

Figure 18: Survey asking 1000 millennials the most important factors when booking holidays UK

■ How "instagrammable" holiday is ■ Cost/availability of alcohol
■ Personal Development ■ Local Cuisine
■ Sightseeing



SOURCE: Schofields Insurance/ The independent

MARKETLINE

Instagram holiday photos are now the most important factor for young people

For younger generations, the “instagramability” of a location or destination is now the number one motivation for booking a holiday according to the 2017 survey. Higher than all other priorities is the need to have a beautiful or unique location from which to produce online content for Instagram. This is now more than a minor trend; it seems that purchasing decisions are now based on this factor over other more traditional concerns. Younger consumers are consuming large amounts of holiday based content on their phones through Instagram and this is influencing their holiday plans. Typically the millennial generation and younger find justifying holidays, trips and experiences in a financial sense, much easier because it has been shown that whilst they have less purchasing power on average than previous generations they typically have fewer long term financial burdens and many consider travel and experience to be an essential expenditure. Younger travelers wanting to take their own photos in the glamorous Instagram style is the main reason for the prevalence of this “Instagramable” experience trend and some hotels are even offering guide services that can show people where the most beautiful spots are to take travel photos from.

Holidays with millennials are less traditional and tend to favor “instagramable” experiences

When it comes to tourism, millennials are perfectly willing to spend heavily on holidays and travel. They do have specific requirements when it comes to travel though. For instance, one trend which is common with millennials is a reduced interest in big ticket luxury goods products like diamonds, luxury watches and high end jewelry and this trend also affects things such as holiday choices. For instance millennials choose luxury hotels in classic holiday resorts less readily. What appeals to this generation more is again the theme of a unique experience and this ties into the generation’s increased use of social media and technology.

Unique holiday areas that are worthy of being discussed on social media or particularly beautiful locations that can be added to social media websites like Facebook or Instagram and discussed with friends tend to be very popular as opposed to more traditional generic holiday resorts that might be cheaper, but more common.

The rise of Airbnb affects this too, Airbnb has really connected with millennials because it can offer somewhere to stay that is very unique, giving travelers the chance to “experience” what it is like to actually live somewhere, rather than being just a tourist passing through and it can also be well priced when compared with hotels too. This kind of idea really appeals to millennials and the tourism and hotel industry needs to bear this factor in mind when attracting younger people.

Figure 19: Travelling focused on social media content



SOURCE: World Wander Lust, Instagram

MARKETLINE

Prices are now similar for Instagram posts and for TV advert buys

Typically for advertisers on Instagram to pay for coverage from particular channels, they have to spend similar amounts of money to what a typical TV ad buy might be. The format is usually that a travel company will pay for a photo shoot from an Instagram star, or even a single photo featuring a product or location and this is then seen by millions of viewers in some cases.

One popular travel account called doyoutravel is typically paid anywhere between \$3000 and \$7500 for a single post or photo on its feed. This can feature a specific product, location or resort in its pictures. By comparison in the UK a TV advertisement spot from ITV such as a 30-second ad during ITV's breakfast schedule, can cost \$4200-\$4700 on average. Comparatively television viewing figures have been declining and such ads are much less likely to grab the attention of young travelers and also appeal to a very general audience rather than people already interested in that specific set of content. A \$3000 television advertising spot might be seen once and then not be repeated unless it is part of a larger advertising campaign which would cost tens of thousands for multiple airings. Whereas an account such as doyoutravel has 2.8million followers of which a good portion will see the post and it will remain on the channel for a substantial period of time meaning it can be seen and viewed multiple times after the original posting.

Furthermore, posts can be seen by other Instagram users not just the specific followers of an account meaning that the

potential exposure is very large. But critically the audience is already friendly, in the sense that followers of a travel channel want to see travel related content and are not therefore inherently resistant to industry adverts.

Figure 20: Instagram holiday destination content and products



SOURCE: doyoutravel, instagram

MARKETLINE

Deploying technology to help improve and sell the holiday experience

The future of the travel and tourism industry is likely to include a great number of new technology roll outs in order to help bolster existing services. Technology is fostering change in the industry, in terms of growing travelers' expectations and how they interact with travel companies. Travelers increasingly expect a smoother and more personalized experience and they expect to be always connected, no matter if they visit a hotel or if they are on a plane. Thus, a lot of pressure is being put on travel and tourism companies to up their game and provide a great range of high-quality services all the way through the holiday experience from booking through to arriving at the hotel.

Booking a hotel room or buying a cruise or flight ticket can involve using multiple channels. Customers are likely to switch between channels when planning their trips, going from digital devices (e.g., smartphones, tablets, or wearable technology) to travel agencies. Planning a trip often involves checking several online sources and travelers want this process to be frictionless and unique across all their desired channels. They expect customized and customizable services and products. This is a further strain on industry players to invest in solutions which can help them anticipate customers' needs and offer them highly personalized and consistent products and services.

Ultimately this industry is trying to provide consumers with a pleasurable experience and the future of the industry will be

kind to those companies that are able provide these adaptations quickly and thoroughly. Consequently, industry players are trying to find ways to leverage technologies such as augmented and virtual reality, internet of things, artificial intelligence, voice assistants and wearable devices, to elevate marketing and customer engagement, while improving operational efficiency across the business.

Deploying AR and VR as a method of selling holidays and showcasing the experience

AR and VR are being used by travel and tourism companies either for content marketing or to enhance customers' experiences on-site or in-flight. Airlines have started using VR technology to show travelers the cabins in advance, in order to increase ticket or ancillary services sales. Airports use AR-enabled mobile apps to help customers find their way to certain parts of the airport (check-in desks, departure gates, restaurants etc.). In addition, AR or VR is being used by hoteliers to facilitate room selection for future guests during the booking process, by giving them a virtual tour of their room or hotel, thus providing them with an immersive experience and a preview of the experience that they are purchasing. There are huge benefits to providing these kinds of technology experiences, because a prospective customer can be shown the benefits of all the added extras that airlines, holiday makers and hoteliers have to offer thus encouraging potential upselling opportunities and making sure the customer has a good idea of the experience they are about to receive reducing the potential for disappointment.

Examples of how this is being deployed can be seen with Royal Caribbean and its moves to introduce AR and VR technology for cruise customers to choose excursion options when on the cruise. Or similarly Premier Inn's move to bolster its offering and using AR technology and interactive maps in hotel rooms to give customers virtual tours of the nearby area. The best potential for this kind of technology though is in the selling process for the holiday and that is likely to be highly developed in future. Travel agents that can showcase their locations and hotels through in store headsets or even via mobile devices at home will have a significant advantage, because a classic problem in the travel industry is meeting customers' expectations effectively.

Using the Internet of things to customize and sell

The Internet of Things (IoT) can be described as connecting numerous types of devices that are not normally associated with networking into an Internet-like network. Thus, devices can talk to readers that can gather information and then send that information through the network via internet out to the cloud or directly to the mainframe itself out to other things. So with the IoT, all these different things communicate like base stations that can then connect to the network or the Internet and send data. Near Field Communication (NFC) technology can personalize the traveler experience via target advertising or by tracking loyalty points from a hotel guest's use of room service or conference facilities; Sensor data can be deployed for preventive maintenance—wireless sensors can be attached to the circuit panel, thus detecting any electrical abnormalities in the hotel rooms or plane cabins, and alerting the staff to fix them; Smart TV remote interfaces can be used by guests to interact with the other technology in the hotel room (lights, thermostat, drapes, etc.), or they can allow guests to check the weather forecast or other information.

THE TRAVEL INSURANCE INDUSTRY HAS MANY OPTIONS FOR INNOVATION

There are a range of options when it comes to booking travel insurance, from a simple policy that purely covers incidents such as stolen baggage or itinerary changes, to more comprehensive insurance plans that include medical and accident coverage. Travel insurance is still in a grey area though because despite it being an essential purchase many continue to ignore it, particularly for small trips where they would prefer not to endure the extra expense and complication. The broader insurance market is innovating quickly. Much could be done in this sector to make travel insurance easier to obtain, less cumbersome and complicated and deploy new technologies to make it more appropriate and useful.

The insurance industry has been slow to evolve but is now changing significantly due to disruptors

The insurance industry has traditionally been fairly slow to change and ponderous in its attempts to innovate. However there has been something of a dramatic change in the market as disruptor companies commonly referred to as “Insurtechs” have been using technology in order to make efficiency savings and exploit opportunities within the market. Typically these new insurance companies have been able to find savings in specific product areas. Typically this has been in the form of distribution more so than any other area of innovation. These new disruptors are managing to force change in the insurance industry and the leading players are forced to play catch up for the most part, while new types of products are brought to market. This has been seen across the industry, and has yet to hit the travel insurance market significantly, but will over the next decade.

Personalized products and increased connectivity are a boost to convenience

Insurtechs are able to offer personalized micro insurance that uses usage data to drive instant policy quotes and underwriting or value-added services. This is particularly relevant for the travel industry, where customers might be visiting a higher risk location for a short period on their holiday or engaging in a dangerous sporting activity for a short period during their holiday and wants some added protection that is not necessary for the entire duration of the trip. Companies such as Cuvva allow customers to buy hourly car insurance on demand using their mobile phone and it is this kind of product that will fit very well into the travel insurance business.

Full automation is a prime example of how cost savings can be made

Using an automated only approach insurtech companies have been able cut costs and accelerate processes to meet customer expectations. This includes handling services automatically with significantly reduced delays and human interaction, allowing significant staff cost savings. An example of an insurance company doing this is SnapSheet which offers end-to-end automated claims management and we can expect travel insurance companies to start to adopt this kind of practice in future. This kind of development would allow premium price cutting benefiting consumers and better profitability for companies.

Big data is changing how insurers do business, allowing better fraud detection and tailoring policies to individual consumers

Big budgets have been created in the insurance market to ensure market leading companies are positioned at the forefront of change. One estimate states approximately \$1.7bn was spent on 'insurtech' during 2016, a number spending in 2017 is forecast to dwarf. Companies cannot afford to be left behind; a market well known for being averse to change is suddenly developing rapidly as the impact of big spending is felt. Big data offers a number of advantages – improved fraud detection and the provision of greater speed to satisfy the demands of consumers – hence the race to mine the benefits. The travel insurance market has been lagging behind the rest of the insurance industry in this regard but is now beginning to implement significant change.

Many consumers report adjusting versions of events whilst making an insurance claim under the pretense that so many egregious cases get through the system, they may as well embellish their story just to make sure a claim succeeds. Big data is helping the creation of systems capable of sorting out vast quantities of data, comparing the traits of one claim against those of many other similar claims to assess the potential for a fraudulent claim. For major insurance companies this is a major development. Previously dependent upon historic data for creating models to assess the validity of a claim, modern computing power now allows for models to be updated in real time, creating amiable conditions for the detection of low-level, but commonplace, fraud as well as criminal activities. This has been achieved through the capacity to match past claims which were demonstrated to be problematic against fresh claims, detecting key points of similarity which improves the prospects of false information being detected. Over time a cache of data about certain people can be constructed, helping to prevent money being paid out to what are in fact fraudulent activities.

Assessing the future risk of customers is another major benefit provided by the handling of data and allows the travel insurance industry more tools to price quotes appropriately. Acquiring an understanding of consumer behaviors, habits and variances based upon location allows for improved predictive models to be created which are more accurate in forecasting where and when claims will come from. Fraud aside, this information also helps with detecting when a consumer might be about to depart for another competitor, providing the opportunity to offer improved deals better tailored to the needs of a specific customer. Successfully connect the dots and insurance companies could prevent customers from going elsewhere, alleviating the need to persuade customers of rivals to switch. This can be done through the creation of personalized services predicated on traits detected from a vast number of customers. Under old systems this information was not available. Now the old models are being dismantled, imparting a sense of rapid change on a market synonymous with rigid methods seemingly impervious to outside influences.

Interaction with customers is undergoing development too. Data provides opportunities for insurance companies to adjust to moving risks, such as weather and economic events. Previously information on a business would only be gathered infrequently, but with big data a near constant risk of a business failing can be created. For both consumers and travel insurance companies this is good news. Insurers can better predict where risks lie and consumers can be better informed and more likely to purchase appropriate travel insurance. Given the rising influence of climate change upon the wider economy, the ability to gauge risk that is prone to sudden change is vital for future performances of insurers. As the insurance market becomes more volatile in the risks policies cater for, many analysts predict big data will remove human error from processes. Certainly big data has the capacity to direct specific cases towards those best suited to deal with them, helping to improve efficiencies at companies armed with the resources to invest in big data capabilities. This ability to read big data properly feeds into other new technologies that are developing within the travel industry.

Figure 21: AliveCor Kardia EKG analysis app for i-watch



SOURCE: Mac Rumours

MARKETLINE

Wearable tech could play a role with travel insurance premiums and monitoring

With the continued developments in the wearable technology industry it is possible that there could be uses for travel insurance companies. Particularly using devices that are able to monitor health, travel insurance companies could use principles being developed in the medical insurance industry to help provide better personalized insurance and support to customers, whilst being able to monitor a customer to provide more appropriate and potentially live insurance premiums. The cost of claims for medical expenses is by far the greatest cost to insurers, so wearables that monitor the health of the wearer have the potential to offer solutions to insurance providers if they are open to the concept. Although it is not possible for them to be used to reduce the costs of claims related to accidents, as by their very nature these cannot be foreseen, this tech could be implemented to reduce the number of claims relating to pre-existing conditions, or to personalize and provide discounted premiums to older travelers in exceptional health. Wearable tech could potentially be used to monitor for signs that an individual's condition is deteriorating; if these arise then preventative steps can be taken to ensure the traveler receives the correct treatment to prevent them from becoming seriously ill. Although it is unlikely this will prevent a claim, it is possible for it to limit the severity and for insurers to effectively provide a better and more comprehensive service, particularly when combined with other support through app based services.

Virtual GP services could become commonplace in the travel industry

Working with the aim of prevention rather than reaction, virtual GP services have the potential to be utilized by insurers as a prerequisite to clinic or hospital visits thereby helping insurers that cover travel medical expenses to get accurate assessments of the state of an individual's health before the quote is offered or coverage starts. However this can also be offered as an additional service within a policy too by allowing travelers to check non-serious ailments such as rashes or bug bites with a virtual doctor as opposed to having to visit the local hospital, insurers can reduce the costs incurred. This system would be similar to that being implemented by the NHS, allowing travelers to have a medical consultation in order to assess whether further medical treatment is required or if their condition can be treated with medication available at a local pharmacy. It would allow travelers to experience less disruption to their travels and insurers to reduce the high costs associated with medical consultations for minor ailments, increasing profitability within the market.

The development of flight delay policies is a major benefit

Current flight delay regulations within the EU fall under regulation 261/2004, which allows travelers (regardless of nationality) to be compensated should their flight be delayed in excess of three hours or cancelled less than seven days before the departure date. However, the flight must be departing from an airport that is based within an EU country, or the flight should be arriving in an EU country and operated by an EU airline. Recently Chubb, Swiss Re, App in the Air, and FlightStats formed a partnership with the aim of providing UK customers with cover for delayed flights. Customers will be able to claim for flights that are delayed both inside and outside the EU. Further to this, they will also be covered for other unexpected costs such as taxis and refreshments. The cover will provide customers with faster compensation, as claims will be assessed automatically (with no action required by the customer) and paid directly to their nominated bank or PayPal account.

Claims can also be made for delays that are shorter than those specified by EU regulations, as customers will only have to be delayed for more than one hour to claim. AXA has begun developing a similar product, known as Fizzy. By becoming the first insurance group to use Ethereum's public blockchain technology, AXA aims to create smart contracts that are linked to global air traffic databases and will be executed automatically should a customer's flight be delayed in excess of two hours. AXA hopes the use of smart contracts will help streamline the compensation process and lead to increased customer satisfaction, as customers will be aware of the value of compensation when the smart contract is created, removing any possible disputes. Fizzy is currently in the testing phase on flights between Paris and the US. AXA aims to launch it internationally and develop it further with airlines and travel agencies.

Clearly a niche exists within the travel insurance market for such policies, as flight delays are rarely covered by standard travel insurance policies. The convenience of automated claims is clearly a benefit for both the providers and consumers of such policies, and is likely to be a clear selling point of these policies. Analyzing travel destination data provided by the ABI shows an increase from 2014 to 2016 in the number of UK travelers traveling outside of the EU, who would therefore not be covered by EU regulations should a delay occur. Within the next two years the UK will have left the EU, and it is unlikely that UK travelers will be covered by the aforementioned regulations, resulting in policies such as these becoming essential for any UK traveler.

Figure 22: Allianz travel smart app



SOURCE: Allianz

MARKETLINE

The nature of the travel insurer is going to change

Travel insurance companies need to adapt their role to become more than just an unseen company in the background that the consumer has no interaction with other than in the process of filing a claim or buying insurance. Instead travel insurers can become a broader protection and information provider. There is an opportunity here for travel insurers to become a kind of traveler safety advisor, providing insurance in the traditional way, but also providing live and useful information to consumers helping them stay safe on their holiday. The benefits of doing this are multiple, but not only might timely and useful travel safety advice reduce claim numbers, it could help to build some brand value and loyalty, something which is lacking in the insurance business.

Companies will eventually offer services such as live local threat level notification, local emergency support, hospital information, translation services and flight monitoring. This will provide a whole host of extra benefits to the consumer, but the companies will also get a chance to build up their brand with consumers, where previously services were largely undifferentiated and brands less important. Companies are beginning to fall into this role and test the potential of mobile, app, big data and internet of things technologies in order to provide services such as these. An example is the Allianz TravelSmart App, whilst still being relatively rudimentary currently; it provides the platform for where the industry is headed. Offering services such as full insurance policy information, claiming facilities, travel info hotline, flight status information, hospital search database, country information and translation help.

KEY FINDINGS

- The airline industry is reaching a point where it may start to become more profitable as consolidation has swept away much of the stiff competition of the past and there is less choice available. However Airlines need to be careful in their adoption of new technologies, many are becoming sidetracked dealing with complaints on social media which is disrupting their ability to implement new ideas and policies which might be more profitable.
- A great deal of column inches has been given to talking about the Airbnb trend in the hotel industry and the threat to the big hotel players, but still Airbnb is mostly based in a different business segment to hotels. The fundamental business offering that hotels have cannot be replicated by Airbnb and it remains to be seen whether the latter's new business product is a success.
- Rather than the emergence of some new type of holiday, instead the holiday providers have seen resurgence in more traditional holiday types that have become popular again. Cruises and package holidays in particular have been a part of this trend. Coupled with this there is a solid trend for more solo travelers and travel agents and providers are adapting to accommodate these changes.
- The process of selling holidays has switched almost entirely online and the importance of certain social media sites is paramount in this particular industry. Of most significance is Instagram and tourism boards, holiday companies and travel related products companies are having much success using these channels over traditional advertising methods.
- The insurance industry worldwide is changing significantly as a result of emerging technology. Travel insurance on the other hand has yet to truly take hold of new opportunities to create better, more personalized and more profitable products. It is only a matter of time however before some significant disruptors come to market and the leading companies are pressured to make changes of their own.

APPENDIX

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The Future of Technology: Six remarkable advances in technology are coming soon and they will change the world forever (2017) MarketLine Theme Report

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