

## Volcanic ash an advertisement for travel insurance

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Many short-term insurance policies contain exclusions on so-called 'acts of God'. The simplest definition of the phrase is a natural catastrophe such as hurricane earthquake or volcanic eruption. It's a legal term usually reserved for property damage: After the flood, Joe Average was dismayed to discover that his house was not insured against 'acts of God'. South African insurers are familiar with severe storms, hurricanes and floods – even the occasional earth tremor – but have thankfully been spared from volcanic eruptions. Companies (particularly airlines) plying their trade in Europe will be wishing they'd been spared too.

The ash expelled by last Thursday's (14 April 2010) volcanic eruption at Eyjafjallajokull glacier in southern Iceland has disrupted thousands of flights, leaving travellers stranded at airport terminals around the globe. As the ash cloud spreads, Australian insurance news portal <http://www.insurancenews.com.au/> (Insurance News) asks who carries the risk. "Thousands of Australian passengers stranded by the Icelandic volcano eruption should be covered under travel insurance; but exposure to the freak event could be far greater for the airlines' insurers," they say.

### *Airlines suffer massive losses*

Flights to and from numerous European destinations (including the United Kingdom) have been cancelled since 15 April 2010, with airlines still grounded as we pen this newsletter some five days later. Why can't airlines fly in these conditions? The main concern is that engines will shut down as ash clogs the works. Aviation experts believe ash from a volcanic eruption in Indonesia caused a British Airways flight to Sydney to crash in 1982. All four engines stalled and the pilots failed to regain control after the plane lost 2000 metres of altitude under no power.

The cost of closing airfields as far as 2000kms from the eruption is massive. The Centre for Asia Pacific Aviation says six million passengers have been affected by the eruption and the International Air Transport Association estimates global airline losses could run to \$200m per day under current conditions. This is a massive blow to an industry that is already facing losses totalling \$1.5bn this year. But the economic burden will most probably be carried by airlines and their shareholders, rather than insurers.

Insurance News says international airlines typically exclude business interruption from their insurance policies, and "those that do have business interruption cover may be subject to a natural hazards clause!" The true cost of the disaster will be the topic of risk and re-insurance conferences for decades to come. UK crisis advisory group Lewis PR believes cancelled flights, delayed holiday packages, empty cruise ships and vacant hotel rooms could cost the European travel industry £1bn.

### *Local airline in a pinch too*

Local carrier South African Airways (SAA) has had to cancel numerous flights. On 19 April 2010 they apologised to clients for cancelling flights between South Africa, Frankfurt and Munich as a result of the closure of European airports due to volcanic ash in the airspace. The airline also cancelled flights to and from London. "Conditions are being monitored and operations will be resumed as soon as it is deemed safe," said the airline, before adding that it was impossible to tell when flights to these destinations could be safely resumed.

### *Got travel insurance – you're covered – sometimes*

The website reports that Australian passengers who took out travel insurance prior to their trip should be covered for basic expenses. Travel insurance policies cover unforeseen circumstances arising from natural events, and that includes volcanic eruptions. Mike Sopinski, Corporate Affairs Manager at AAMI told Insurance News that the AAMI travel policy covers customers for flight cancellations, flight delays and interruptions along with any cancelled hotel accommodation. The group expects the cost of claims to be negligible. Allianz-owned Mondial Assistance concurs, saying that travel insurance policies sold prior to April 16 included cover for cancellation and accommodation expenses as a result of the volcano.

**We looked at a locally available travel insurance solution to find out how South African travellers would be affected.** A Leisure Comprehensive policy from Travel Insurance Consultants and underwritten by Santam Limited offers cover for eight days (to an individual less than 59 years of age) at a cost of R350. The product brochure states: "Travelling involves a number of risks and you never know what unforeseen events might occur to hamper your journey. Tsunamis, terrorist attacks, floods and earthquakes are all real dangers that exist in our world, and need to be taken into account when you're planning a trip to a foreign country." Volcano's aren't mentioned; but surely belong in the 'dangers' list.

Europeans caught in the malaise may not be as lucky. Standard UK travel policies differ in the coverage they offer. Some cover claims for unused accommodation – while others only cover events such as injury, illness, death, or travel interrupted by 'damage to the family home'.

**Editor's thoughts:** The Icelandic volcanic eruption has caused untold hardship for travellers to and from Europe and insurance companies should brace for a raft of business interruption and individual travel insurance claims. Have you ever had to claim on a travel insurance policy? And were you happy with the outcome? Add your comment below, or send it to [gareth@fanews.co.za](mailto:gareth@fanews.co.za)