

THE IMPORTANCE OF INSURANCE IN TOURISM – PREMIUM INCOME FOR THE CONTINUATION OF RISK MANAGEMENT

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Abstract

Tourism is a very complex activity that arises from a number of different aspects of biological, sociological, demographic, economic, natural, spatial, architectural and other relevant phenomena with an increasing importance in terms of income generation and increasing participation in the social product of our country. Insurance in the context of tourism, as an economic activity, is a significant factor, since it provides clients with a sense of security when they are temporarily away from their place of permanent residence. This is exactly the aim of the paper, to show the significance of insurance protection for an increasing number of tourists and great material interests that can be endangered. Travel agencies as organizers of tourist trips have the obligation to provide their clients with appropriate services as well as protection, i.e. security. Agency provides travellers with the services anticipated by the program and contract, takes care of travellers' rights and interests in accordance with good business practices. It is necessary to review risk management methods in tourism so that insurance protection is in line with the continuity of tourism development.

Key Words: *insurance, tourism, risks in tourism, income, expenditures*

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Introduction

Given the significance of tourism, it can be concluded it is very dynamic and profitable branch, becoming a global phenomenon by the number of participants. Therefore it is currently developing and also contributes to

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economic development and the growth of the gross domestic product. The growth of investments in tourism has resulted from the fact that tourism employs a significant number of people, it enables the development of infrastructure, increases revenue, and thus is the driver of socio-economic development. There are a number of factors that affect tourism, and therefore the significance of insurance activities is steadily increasing. Observed through the competitive advantage of the national economy, tourism can face different attitudes.

Michael Porter (1990) established a new approach in defining crucial factors of competitive advantage of nations which are sublimated in a model symbolically called the "diamond of national competitiveness". Model identifies four groups of determinants for national competitive advantage: factor conditions, demand conditions, firm strategy, structure and rivalry and related and supporting industries. Porter stated that national prosperity is created, not inherited (Porter, 1990). National competitiveness relies on productivity, innovations, technology and knowledge with the ability of companies to apply a strategic approach to maximizing profits. The unstoppable growth of market demand for good knowledge workers is an imperative for educational institutions to continuously improve their programmes and equip young people with skills that will give them the best possible access to the business world. (Lamza Maronić et al., 2012). With the growing importance of tourism and tourist activity, the topic of competitiveness of tourist destination has emerged. Tourism's contribution to national wealth has a great potential, considering the fact that tourism is a principal export for 83% of developing countries (Richardson, 2010). Developing countries' share of international tourist arrivals more than doubled from 1973 to 2000 (UNWTO, 2002). Different interpretations and models of competitiveness of the tourist destination have been developed, and many of them are based or derived from Porter's theory of national competitiveness. Ritchie and Crouch (2003) defined destination competitiveness as the ability of one country to create additional values and thus increase the national wealth by managing assets and processes, attractiveness, aggressiveness and proximity and by integrating these relationships within an economic and social model that takes into account a destination's natural capital and its preservation for future generations. On the other hand, Heath (2003) focuses on specific indicators of destination competitiveness and points out that they include objectively measured variables such as visitor numbers, market share, tourist expenditure, employment, value added by the tourism industry, as well as subjectively measured variables such as

‘richness of culture and heritage’ and ‘quality of the tourism experience’. Many authors have been researching on this subject and took into account indicators of tourism demand and tourism performance as a source of measuring and expressing tourism competitiveness, with focus on indicators such as participation of tourism in GDP, number of tourist visits, expenditure of tourists etc (Croes & Kubickova, 2013).

In Serbia, tourism has a growing potential, with great performance in the growth of inbound tourism and corresponding foreign exchange inflow (more than 50%, from 2009 to 2017). According to SWOT analysis of Serbian tourism, in The Strategy of tourism development of Republic of Serbia for period 2016 – 2025, the greatest weakness of Serbian tourism is "failure to recognize the importance of tourism as essential factor of economic growth, more uniform regional development and employment growth" (Ministry of trade, tourism and telecommunication, 2016). Despite inefficient tourism policies, different areas of tourism have been identified as a source of tourism and economic development of Serbia: rural tourism spa and wellness tourism (Dimitrovski and Todorović, 2015), mountain tourism (Stankov et al., 2011), wine tourism (Sekulić et al., 2016). In Travel and Tourism Competitiveness Report for 2017, Serbia was ranked 95th among 136 countries with total score 3.38 out of 7.

Tourism as a business activity has a significant role in the economic environment of a country. The development of this activity requires supporting factors, such as the development of insurance activity, as one of the more important factors, which provides security for all participants and the protection of property interests (Vojinović et al., 2017). For this reason, special attention is paid to the insurance as an accompanying activity, without diminishing its significance.

Insurance and risks of tourist activity

Insurance is an economic, service activity that protects man and his property from the consequences of numerous activities (Šulejić et al., 2009a). The basis of insurance is the reciprocity principle. It provides economic protection to insured persons, legal and natural persons, from harmful effects and disorders that arise from the occurrence of the insured event or the realization of the insured risk. The basic function of insurance is to create a security situation for natural persons and legal

entities, who are exposed to the continuing likelihood of occurrence of hazards that lead to damage.

It is important to note that insurance is an economic and service activity that protects man and his property from the consequences of a great number of hazards. This ensures the necessary security in the economy and society as a whole. Legal persons and individuals are exposed to the constant risk of hazards that can lead to specific damage. Insurance is the most important type of security against such events and represents an economic necessity for everyone who takes care of security both in business and in everyday life (Šulejić et al, 2009b).

Insurance is characterized by providing economic protection against harmful effects when the insured case arises, or when the risk arises. For this reason, survival, risk and claims are directly related to insurance (Kočović and Šulejić, 2006). Role of insurance according to Marović, Avdalović (2006) is to transfer risk from an individual to a group and to distribute claims within the group. It is never possible to completely eliminate or to reduce all harmful events and accidents. However, a solution has been found for such cases, i.e. in the addition to direct protection, there is also indirect protection. This is about economic protection that fully benefits the general public. By establishing insurance which acts according to its own inherent mechanism, the reconstruction is organized in advance of what has been destroyed by the effect of the elemental force or any other economically damaging event (DDOR, 2006). Insurance can be observed from several perspectives, i.e. it consists of three components: economic, legal and technical (Vojinović, Žarković, 2016a).

Insurance protection can be indirect and direct. The basic role of indirect economic protection, i.e. compensation of damage to the insured property and payment of insured sums regarding the insurance of persons, is fulfilled from pre-collected funds from the insured, in the form of insurance premiums (Žarković, 2006). Direct protection is provided through the efforts of other social actors and is implemented using the following measures (Ljutić, 2000):

- measures for preventing the occurrence of harmful events,
- measures for counteracting their harmful consequences.

According to the World Trade Organization (WTO), there are four main sources of risk in tourism (Popesku, 2011; Drljača & Bešker, 2010):

1. Human and institutional environment outside the tourism sector. It occurs when a tourist is a victim of theft, fraud, or other illegal activities (white slaves trafficking, organized crime, social conflicts, etc.). One of the more frequent risks that arise on travel trips are the risks associated with warfare and the risks of terrorist attacks.
2. Tourism and related commercial sources. They arise when visitors' economic and personal security or physical security is at risk if there is any failure to comply with the contract on any basis. It can also occur as a source of risk due to employees' suspended work in the facilities in which visitors stay, due to fraud in commercial transactions, disregard of fire protection standards, insufficient level of sanitation, etc.
3. Individual sources, i.e. individual travellers. This risk arises in the event of a danger threatening tourists due to the possibility of falling from unsecured points of view, marked as a dangerous area, undertaking any criminal act, missing of money, violation of rules and procedures, driving under the influence of alcohol, practicing dangerous sports for which tourists are not adequately equipped, etc.
4. Environmental risks, the presence of dangerous animals, poisonous plants, natural disasters, etc.

Since the adoption of the Insurance Law in 2004, insurance companies must at the time of registration specify the activities they will perform (Petrović, 2005). Activities directly connected to the insurance business are insurance brokerage and agency, determining and assessment of risks and claims, brokerage in sale and the sale of the remains of the insured damaged objects and rendering other intellectual and technical services relating to insurance activities (Insurance Law, Official Gazette of the Republic of Serbia, Article 2, 2014). According to the same source (Article 3) insurance activities shall be performed by an insurance company licensed by the competent body for the performance of those activities, as well as by a branch of a foreign insurance company licensed by the competent body for the performance of those activities. According to Janković (2013), there are numerous divisions within life insurance that can be significant in tourism:

1. Division according to the method of concluding a contract:
 - a) with a medical examination, and
 - b) without a medical examination.
2. Division by number of persons covered:
 - a) individual, and
 - b) group.

3. Division according to the person in whose favour life insurance contract is concluded:
 - a) personal, and
 - b) on behalf of the third party.

Non-life insurance protects property risks of movables and real estate. The type of insurance that protects movable items in the insured apartment is household insurance where, as a rule, the entire contents of the apartment, i.e. the house is insured. Household insurance in Serbia has been on the rise in recent years, especially when it comes to big cities, such as Novi Sad and Belgrade. The receipts of housing costs also include the "insurance" item, so the payment of these expenses also implies payment of the first monthly premium resulting in the conclusion of the contract (Vojinović & Žarković, 2016).

Pursuant to Article 45 of the Law on Tourism a travel agency as the tour operator shall provide a travel guarantee for each passenger and/or agreed tourist trip in the prescribed manner. The minimum amount of insurance as a coverage for the activities of tourist organizations is EUR 300,000. In addition to compulsory liability insurance, professional liability insurance, for travel agencies, travel health insurance is often compulsory for travelling abroad. Travel health insurance is the latest type of insurance, arising from the need to provide passengers travelling for business or pleasure with the appropriate health service if necessary. The subject of insurance is a sudden illness or accident. In these cases, the policy covers the cost of hospitalization and outpatient treatment, bandage, medication, transportation to the hospital, surgery costs, patient transport to the place of residence, etc.

Travel health insurance covers different risks from various hazards. Coverage refers to health insurance, travel assistance and legal assistance. This insurance covers the risks and dangers for persons, physical integrity, physical ability, etc. at a certain time or for a certain period of time. Such a risk coverage represents a specific financial business, which is interesting not only for insurers and the insured, but also for the economy as a whole, and thus for the entire community (Miloradić et al., 2006).

The specificity of travel health insurance is the healthcare provided to travellers in the event of a danger to their health. State health insurance is regulated and managed by the state, while private insurance is also

regulated by law and carried out by insurance companies (Vujović & Kapidžić, 2008). Voluntary health insurance needs to be a legal option (Kočović et al., 2013).

Different types of health insurance may refer to diseases or injuries as a result of an accident, and may include repatriation costs to the country of permanent residence in case of serious illness (or fatalities). Travel agencies specifically recommend certain types of health insurance for travel arrangements associated with a high level of risk (adventure travel, such as climbing cliffs, safaris and similar trips) (Spasić, 2007).

Results and discussion

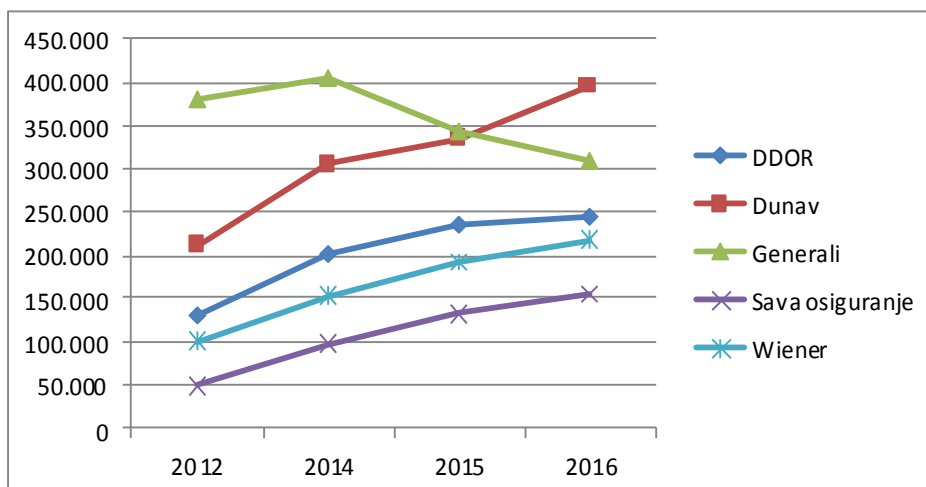
The significant development of tourism shown in the following Table 1 indicates the growth of revenues and the positive results achieved. The upward trend is certainly boosted by the travellers' trust, which again has resulted in an adequate relationship between the state, travel agencies and insurance companies in risk management. In the observed period positive trends were registered in the number of foreign tourist arrivals and related revenues, with the number of hotels increased by 38%. On the other hand, the participation of employees in tourism in total employment in Serbia was reduced by 0.7% (Vojinović & Živković, 2018).

Armenski and associates applied Integrated model of destination competitiveness by Dwyer (2003) and established that Serbia is more competitive in its natural, cultural and created resources than in destination management and is less competitive in demand conditions (Armenski et al, 2011).

In addition to the above-mentioned conceptual frameworks for destination competitiveness, numerous researches have been conducted with focus on emphasizing the importance of different factors such as tourist preferences and satisfaction (Vavra, 1997), ecology (Poon, 1993), prices (Dwyer et al., 2000), government policies and strategies (Gooroochurn & Sugiyarto, 2005).

Spasić & Pavlović emphasize the role of destination management and argue that activities of destination management contribute to the quality of the products offered in the destination and to the destination competitiveness at the international market (Spasić & Pavlović, 2015).

Figure 1: *Total insurance premiums by companies and types of insurance*

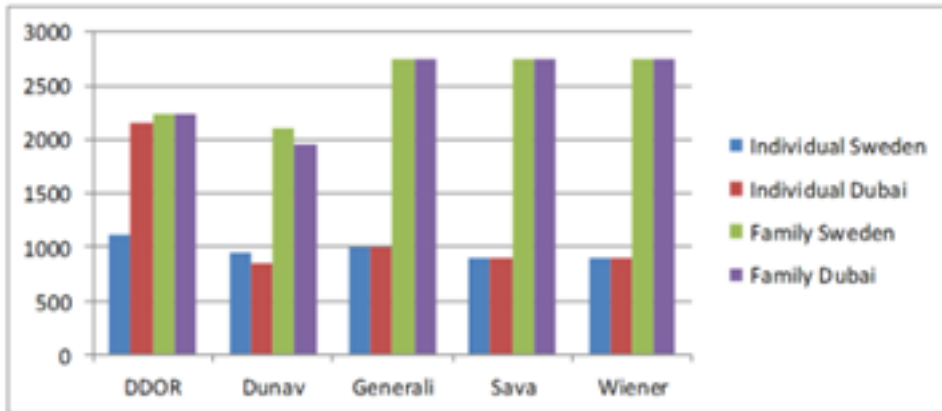


Source: *Authors' presentation*³

In the insurance market of the Republic of Serbia, there are five leading insurance companies, and their results will be presented in the paper. These results are relevant from the perspective of risk observation and management in tourism and they are correlated with the trend in tourism. The premium is the price in the direct dependence on the insurance amount that is paid by the insured, and which should be sufficient to cover the risk in a certain period of time and on a large enough number of insured to diversify risk (Birovljev et al., 2015). There are many benefits for tourists, and the main role is the protection of tourists during the trip. From a social point of view, insurance is an economic mechanism that has the function to eliminate risk by combining a sufficient number of homogeneous risk exposures in the group, and thus losses become predictable for the group and the whole, and the absolute and relative amount of their consequences is reduced (Rutherford, 2008). Risks of tourist activity that are most frequently covered in insurance are (Drljača & Bešker, 2010). Accident insurance, frequent danger with harmful consequences in performing tourist activities, represents a common interest and connects insurance and tourism activities. The consequences can be permanent or temporary disability but also fatality.

³ Poslovanje društava za osiguranje, https://www.nbs.rs/system/galleries/download/osg-izv-3m/T10_IV_2016.pdf, (18.02.2019)

Figure 2: *Travel health insurance premiums by destinations*



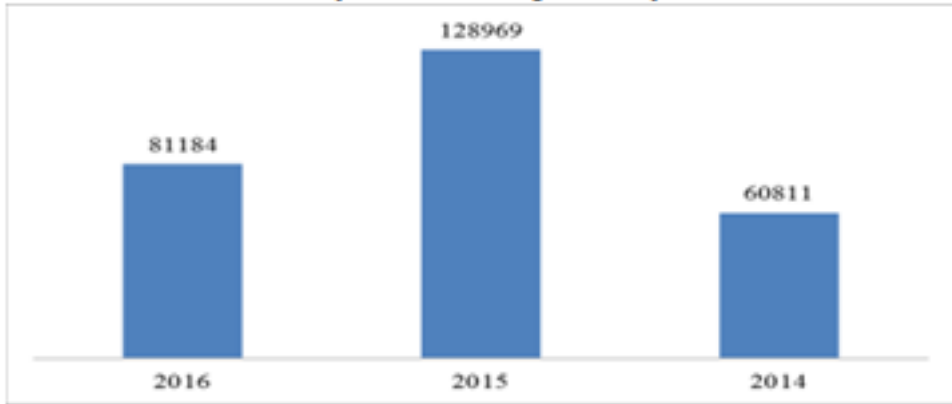
Source: *Authors' presentation*

Besides providers of tourist services, tourist complexes are also exposed to a large number of risks. Special emphasis should be placed on liability insurance. General liability insurance covers sources of danger in the performance of industrial, craft and professional activities. More recently, there has been an increase in the number of compulsory liability insurance policies, as for insurance brokers, actuaries, auditors, doctors, architects, travel agencies (Pak, 2010). Many travel agencies conclude group insurance contracts, which include all types of accident insurance, when travel agencies provide insurance both for their employees and persons to whom they are selling their services i.e. travellers. Group insurance contract is characterized by including, besides accident insurance, the liability insurance of the policy holder for those persons in case of damages that would arise against them or their property. This is the most common way of concluding insurance contracts with travel agencies, so each traveller is not obliged to take out insurance policy separately. Group insurance contracts are much simpler for the business of travel agencies, especially for insuring clients travelling abroad.

The policy holder is a tourist organization, i.e. a tour operator, which carries out travel trips in the country and abroad. Liability insurance of travel agencies covers the following compensations:

1. for claims of travellers' paid funds based on a contract on a tourist trip, which is unrealized by the tour operator,
2. for the difference between the agreed travel price and the travel price reduced in proportion to the non-fulfilment or incomplete fulfilment of the services covered by the travel program (Stojanović et al., 2016).

Figure 3: *Insurance premium for guests, visitors of the event, excursionists and tourists from the consequences of an accident*



Source: https://www.nbs.rs/internet/cirilica/60/60_2/index.html, 15.02.2019

The insurance contract in particular provides coverage of civil liability for damages arising from travel agencies' failure to fulfil their obligations, so this type of liability also includes compulsory insurance coverage of damage due to inability of the insured, travel agency, to settle the expenses of the necessary accommodation, food and return of travellers from the trip to the place of departure at home and abroad (Pak, 2010). Travel organizers should inform caterers in the course of filling up accommodation capacities in a timely manner. The mutual relations of travel agencies and hotel companies can be regulated on the basis of three types of contracts:

- An agency contract for hotel services or a reservation contract,
- Hotel capacities lease agreement, and
- Allotment contract or hotel engagement contract.

In most countries, these contracts are regulated under national legislation, and there have been attempts in harmonizing regulations at the international level (Spasić, 2007). Liability insurance provides insurance against damage to third parties. They may be transient guests at the hotel, who are not contractually involved, but a travel agency may be responsible for the damage from failing to provide service. In case of objective reasons for travel cancellation that have been beyond traveller's control (death, illness, inability to use already approved vacation, greater material damage due to force majeure, etc.), the traveller is released from responsibility towards the travel organizer. Traveller may conclude a contract for trip cancellation insurance for protection against the risk of liability for damage suffered by the agency (Petrović, 2011).

Insurance against civil liability refers to covering sources of danger from performing industrial, craft or professional activities. More recently, there has been an increase in the number of compulsory liability insurance policies, as for insurance brokers, actuaries, auditors, doctors, architects, travel agencies (Pak, 2010).

Models of tourism risk management

In order to enable undisturbed development of tourism, it is necessary to define the measures for easier implementation of the risk management process. First of all, it is necessary to be familiar with the specificity of the risks in tourism, as well as measures for the suppression of risks, and thus the needs of tourists and those who provide tourist services are fulfilled. "The risk is a source of potential damage to tourists, tour operators, a tourist company or a tourist destination" (Stojanović & Ilić, 2016). Management approach (IRM), developed by COSO (COSO, 2004). Mikulić and associates (Mikulić et al, 2016) have applied IRM framework in assessing short-term risks of Croatian tourism. The IRM approach consists out of following activities: defining destination objectives, analysis of external and internal environment, risk identification, risk assessment, risk mapping, risk management decisions, continuous monitoring and reviewing (Mikulić et al, 2016).

Risk analysis includes the assessment of identified risks, i.e. their impact on the business of the tourist destination. It involves analysing all the risks and the size of the harmful effects. The advantage of applying these theoretical frameworks is the opportunity of defining the specific risks that are immanent to a particular tourist destination. On the other hand, many authors have defined the overall types of risk which are correlated to tourism destination and tourist activity, such as: health, political instability and terrorism (Sonmez & Graefe, 1998); war and political instability, health, crime and terrorism (Poon & Adams, 2000); internal business risk, environmental risk, competitiveness risk, economic risk, political factors, infrastructure, circumstantial risk, business insufficiencies, specific (local) risk (Oroian & Gheres, 2011). According to Unković, Zečević (2008), a risk in tourism may turn into a catastrophe. It is particularly exposed to extreme shocks that are unpredictable by their nature, and therefore risk management is highly emphasized. The overall objective of tourism risk management is the successful realization of the event, which is in the function of meeting the visitors' needs and achieving the organizer's profit.

According to Kaiser, Robinson (2005), risk management is an approach to dealing with risk and involves determining the level of exposure that will be accepted by tourists and tourism, identification of dangers to tourist activity and tourists, danger assessment, selection of the appropriate strategy, implementation of strategies, etc. Stojanović et al, (2016) claim that the risk management process in tourism should provide the following:

- safety to visitors, tourists and employees in tourism,
- secure communication systems with all persons in the facility and within the destination,
- securing facilities, plants and equipment against consequences of a disaster,
- contribution by trained personnel,
- procedures for return to normal business activities.

Risk should be monitored by the degree of probability and size of the resulting consequence. The authors Krupka, Zečević (2003) provide a quantitative assessment of these values in the following tables.

Based on the assessment of the probability and size of the damage caused by the risks in tourism, they can be ranked in the following levels:

- E - extreme risk, requires immediate action,
- H – high risk, requires the top management attention,
- M– moderate risk, management responsibility must be established,
- L – low risk, solved with routine procedures.

Table 1: *Assessment of the tourism risk level*

Probability	Consequences				
	insignificant	minor	moderate	significant	catastrophic
Almost certainly	H	H	E	E	E
Probably	M	H	H	E	E
Possibly	L	M	H	E	E
Uncertainly	L	L	M	H	E
Rarely	L	L	M	H	H

Source: *Krupka, Zečević, (2003)*

In the next phase of risk management, it is important to determine the way and alternatives in risk management that are mainly reduced to the following:

- a) Acceptance of the risk that is applied in cases where the frequency and size of the risk is small;

- b) Reduction of the risk where the likelihood of a consequence can be reduced by risk modification or the consequences of the event may be reduced by modifying the risk exposure method;
- c) Risk transfer that is applied when the risk is fully or partially transferred to others, due to significant consequences of the risk. In this case, the insurance company usually appears as the institution to which risk is transferred;
- d) Risk avoidance as a way to deal with risks with high frequency of occurrence and size, so the activity that can lead to such negative effects is not realized.

Various skills and knowledge are needed for a successful performance of such a complex operation, such as: technical skills (the application of specific professional knowledge acquired through training and experience), the art of dealing with people, the ability to work with others, understanding, motivation and the ability to analyze and diagnose complex situations. (Glavaš et. al., 2015.) According to Popesku & Pavlović (2015), a two-way communication about the opinions, attitudes and observations is very important at every point of each phase of the risk management process in tourism. At any time, the identification, measurement and assessment of risks and the success of the risk management method in tourism should be subject to specific methods. Numerous methods are used to identify, assess and evaluate the reliability of the risk management process (Drljača & Bešker, 2010).

When deciding to reduce the likelihood of damage, it is necessary to exclude sources of danger and to introduce control of the work process (Vujović & Kapidžić, 2008). Furthermore, when it comes to undertaking preventive measures in hotel or similar tourist facilities, in the event of a fire risk, insurance companies invest their funds into preventive measures for fire extinguishers and fire-extinguishing systems, or they use security cameras in case of a risk of car theft at hotel parking lots and the like (Petrović, 2011).

Table 2: *Types of risk in tourism categorized according to participants in tourism value chain*

Risk types/ Value chain position	Upstream (Suppliers/Intermediaries)	Downstream (Agents/Clients)
Absolute	Financial, functional, operational, performance, physical, psychological,	Equipment risk, financial, physical, psychological,

	reputation, social, strategic, time. Political instability, terrorism and war, health, crime.	satisfaction, social, time. Political instability, terrorism and war, health, crime, cultural difficulties.
Subjective	Market expectations and information Product constrains Uncelebrated service quality Lack of competence	For tour leaders (guides): Exogenous, tourist induced, tour-leader self-induced. For tourists: Perceived food risks, risk-taking behaviour of tourists, perceived tourists risks in adventure tourism.

Source: *Gjerald & Lyngstad, 2015*

Gjerald & Lyngstad have mapped and summarized all risk categories in tourism from the perspective of tourism value chain (see Table 6). Taking into account the identified threats in SWOT analysis of Serbian tourism, the following risks can be highlighted in particular: economic risks, terrorism and safety risk and political risks.

Conclusion

Regardless of how efficient the risk management process is in tourism, the risks will continue to be present and will affect the subjects of the tourism industry. The use of modern information technologies for the purpose of providing timely and accurate information for adequate risk assessment is presented as a necessity in modern business (Stojanović, 2011). Due to the lack of an adequate risk management concept, many tourism industry operators in the world have suffered significant losses. The precondition for stable and continuous business in the field of tourism is the management of the risks that arise in this area.

The problem of risk management exists as a global problem that requires global solutions. An adequate concept of risk management in tourism requires adequate solutions. Risk can not be avoided, it needs to be managed. Risk management in tourism contributes to sustainable success, based on the principles of quality, sustainable development, social responsibility and business ethics. This leads to the continuous business success of companies and organizations in the field of tourism on the one hand, and to the satisfaction of tourists with the services provided, on the other hand. Insurance is one form of risk management, primarily aimed at reducing financial losses. Insurance is the transfer of risks from the

insured to the insurance company, with the payment of the insurance premium.

In line with tourism development, travel agencies gain increasing significance and they today perform all the more important functions and tasks in the tourism industry. Travel agencies perform business activities on behalf of tourist organizations or represent their interests, but today they increasingly provide tourist services on their own behalf, so that they gradually transform into tourist organizations that most often provide a package of tourist services. It is absolutely necessary to clearly understand the core activities of the company and the values it creates for its consumers, especially in the area of tourism destination management.

Risk management in tourism should be conducted unified at the international level, given the international character of the tourist activity. World Tourism Organization (UNWTO) is a key international authority in improving tourism competitiveness in the area of risk and crisis management in tourism. Through various programs UNWTO includes tourist stakeholders at all levels in the activities of creating plans for identification and risk mitigation and communication in cases of risk occurrence (natural disasters, terrorist attacks, etc.). Framework represents a process in risk management in tourism and includes following stages: establish the context, identify the risks, risk analysis, risk evaluation, treatment of risks (Robertson et al., 2006). Tourism stakeholders, especially tourist organizations and operators, should focus on implementing on-going activities of communication and consultation and monitoring and review, in comprehensive process of risk management of tourism destination.

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