

A woman with blonde hair, wearing a white face mask and a dark blue pinstriped business suit over a white collared shirt. She is looking upwards and to the right with her arms crossed. The background is a blurred green wall.

The impact of flu pandemics on sickness absence insurance

Maud Rommers and Niels van der Laan look at what has been happening in the Netherlands.



The threat of the latest strain of influenza H1N1 (often referred to as 'swine flu') has been in the news in the Netherlands, as in many other countries around the world, for quite some time. Sickness absence is a commonly insured risk in the Netherlands and insurers have been quick to promote the availability of cover for employers that protect against pandemic costs. But with opportunity also comes risk, especially for a phenomenon that has not been seen for many years on such a widespread scale.

The Dutch market for sickness absence insurance has seen little change in recent times, with as many as 60 per cent of employees covered through their employers. For the remainder, typically employed by large organisations, a self-insured route is preferred, with the employer choosing to bear the financial risk of absence themselves for up to two years' worth of wage payments.

Where employers have cover, it is typically described as 'conventional' insurance, and this is subject to an excess defined in terms of the number of sick days per sickness. This excess is typically between

10 and 30 days. Until the excess is reached, the employer covers the sickness costs, thereafter, the costs of absence are met through the insurance policy.

The other less common option is 'stop loss' insurance. Such insurance has an excess defined in monetary terms. Where total sickness absence costs for the workforce exceed the excess, the balance would be refunded by the insurer. If the excess is not reached, the employer bears all the costs.

With the events that unfolded in Mexico in early 2009, and as H1N1 influenza spread around the rest of the world, the threat of a global catastrophe on a scale not seen or anticipated for many years became apparent.

In such circumstances, there would be more sickness absence than under a normal 'seasonal' flu outbreak, but in general the absences would be of relatively short duration, albeit with many occurring concurrently. An employee absence rate of 25 to 30 per cent lasting from one to three weeks could be a plausible scenario. An influenza H1N1 outbreak might also be expected to last for about 20 weeks, whereas a 'normal' influenza outbreak lasts 10 weeks and only hits 5 per cent of the population.

“ ...looking further forward, is the 2009 H1N1 pandemic an exception, or will there be a pandemic next year, or the year after? ”

In such a pandemic scenario, however, a 'conventional' sickness absence insurance policy may provide little or no cover, depending on the duration of the excess period. The 'stop loss' sickness absence insurance could provide better cover, if the monetary excess is exceeded. Figure 1 provides an example.

Over the last few years, uncertainty over long-term sickness absence has been a key reason for employers to seek sickness absence insurance. Now however, the threat from an H1N1 influenza pandemic also makes widespread short-term sickness absence a considerable risk, and where companies are looking to manage their costs (particularly given the current difficult economic times), many may want cover.

Within the Dutch market, this has meant renewed interest in 'stop loss' forms of cover, given its better fit to employers' needs.

However, the risks involved are different to those which might have been assumed only a few years ago. Insurers cannot rely on recent past experience – there have been no pandemics in recent times, and the severity of pandemics can vary considerably. Therefore, pricing in the current environment is no easy task.

Insurers could choose not to accept 'stop loss' insurance applications, or alternatively tighten the conditions when such policies are available. While understandable, such approaches do not really help employers, but there may be little

Figure 1 | Comparison of 'conventional' versus 'stop loss' sickness absence insurance

<p>Employer details Employer with 50 employees, average income per employee per work day of €96</p>
<p>Pandemic sickness Absence rate: 30% of workforce Duration of absence: 11 working days each</p>
<p>Cost of absence Days sick x number of employees x average daily income = 11 x 15 x €96 = €15,480</p>
<p>'Conventional' insurance Excess (workdays) = 10 days Insurance pay out = days over excess x number of employees x average daily income = (11 - 10) x 15 x €96 = €1,440</p>
<p>'Stop-loss' insurance Excess (cost of absence) = €10,000* Insurance pay out = cost of absence - excess = €15,480 - €10,000 = €5,480</p>

* Typical excess levels for this company would be higher, as it would also cover the costs of non-pandemic, 'regular' sickness absence. In this example, it is assumed that most of the excess has been used for 'regular' sickness absence. Only €10,000 remains for pandemic absences.





alternative if insurers are unable to assess the risk with any degree of confidence.

Another option could be to differentiate between insurances that include or exclude pandemic coverage, although the potential for disagreement over whether sicknesses are related to a pandemic (or not) would be significant.

And looking further forward, is the 2009 H1N1 pandemic an exception, or will there be a pandemic next year, or the year after? Assumptions around severity and recurrence of pandemics are often based on limited data and 'scenario' projections available from research institutions which can vary considerably, with an inevitable impact on the pricing of sickness absence cover.

A resurgence of the 2009 H1N1 strain of influenza pandemic in the coming months could potentially lead to widespread illness, possible loss of life, as well as the consequences of lost productivity in the workplace that could impact the still fragile global economic recovery.

Should the pandemic strengthen, there will be a lasting impact on sickness absence insurance markets wherever they are. Data will need to be split between illnesses due to the H1N1 influenza and other causes to allow, where possible, a better understanding to be developed of the characteristics of those who are more or less at risk. Even if the threat of a reinvigorated pandemic recedes, the impact of 2009 H1N1 strain of influenza on the sickness absence costs need to be better understood so products can be tailored to provide sought after cover at acceptable levels of risk for the insurers.

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