



State of Utah

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BULLETIN 2006-1

To: All Insurance Companies Authorized to do Business in Utah

From: D. Kent Michie, Utah Insurance Commissioner

Date: March 1, 2006

Subject: Avian Flu Pandemic

The Insurance Information Institute (I.I.I.) estimates that a moderate avian flu outbreak similar to the 1957 and 1968 flu pandemics has the potential to have a significant impact on life insurance companies and health insurance companies directly and property and casualty companies indirectly. The I.I.I. estimates that a moderate outbreak of the avian flu will generate \$31 billion in death claims.¹ If the outbreak is severe, it will cause about \$133 billion in death claims.²

The effect of such outbreaks will be particularly great on life insurance companies that concentrate their marketing and sales efforts on group and individual term products because the claims volume will require them to look to the capital markets to shore up capital and surplus that will be needed to respond to such high volumes of claims payments. This may also be true of health insurance companies that will see a surge of health insurance claims. Increased levels of sick leave usage by their employees will indirectly affect property and casualty companies.

Some of the factors that may exacerbate or mitigate the impact of an avian flu outbreak are:

- geographic concentration of insured persons, particularly persons covered that reside in foreign countries;
- effect of the need to liquidate portions of a company's investment portfolio;
- ability of a company to liquidate portions of its investment portfolio;
- diversification of products in other profitable lines other than group life and individual term life;
- reserving methodology to calculate reserves for the products expected to see heavier claims;
- reinsurance and risk management programs;
- financial strength—capital and surplus levels; and
- capacity of capital markets to respond to the potential need for additional capital.

All companies need to consider the impact of an avian flu pandemic on their ability to process and pay claims in a timely manner. The Utah Department of Health (DOH) estimates that an outbreak of the severity of the 1918 pandemic would cause over one million Utahns to become

ill and result in more than 500,000 outpatient doctor visits, 15,000 hospitalizations, and 4,000 deaths over the course of a year.³ The illness and fear of contracting it in the workplace will result in significant increases in employee absences from the workplace. DOH estimates that the pandemic will occur in two waves, the second wave will appear three to nine months after the first wave and in any given community will last about one month.⁴ DOH assumes that no vaccine will be available until 6-8 months after the onset of the pandemic and it will take at least five months to produce an adequate supply of vaccine for the entire US population.⁵

All insurance companies can expect to be impacted by increased employee absenteeism during the period of a flu epidemic in Utah. High levels of absenteeism may impact the ability of companies to pay legitimate claims arising from the flu and its complications.

Accordingly, I am strongly advising insurance companies to take measures now to plan for the likelihood of an avian flu pandemic. Our state and national leaders have put in place plans and tools to assist businesses, families and individuals as they plan for an avian flu outbreak. These plans and tools are available at the following websites:

- Utah Department of Health: <http://health.utah.gov/epi/diseases/flu> -- weekly updates, flu facts and Utah preparedness plan;
- U.S. Department of Health: <http://www.pandemicflu.gov> -- updates, information and tools;
- U.S. Department of Health: <http://www.pandemicflu.gov/planguide/checklist.html> -- individual and family checklist relating to avian flu prevention;
- U.S. Department of Health: <http://www.pandemicflu.gov/plan/businesschecklist.html> -- business checklist relating to avian flu prevention; and
- Centers for Disease Control and Prevention: <http://www.cdc.gov/flu/pandemic/business.htm> -- pandemic influenza tools for business.

All insurance companies authorized to conduct business in Utah are expected to plan for an avian flu pandemic and the impact it will have on the financial strength and ability to promptly pay claims arising from the pandemic. Company management is strongly encouraged to include a discussion of these two issues when they file their annual Management's Discussion and Analysis each year.

If you have any questions regarding this bulletin, please contact Steven Fry, Chief Financial Examiner, either by email, sgfry@utah.gov, or telephone, (801) 538-3671.

¹ Insurance Information Institute, http://www.insurancenewsnet.com/print.asp?a=top_news&id=56388.

² *Id.*

³ Utah Department of Health, *Utah Pandemic Influenza Response Plan*, November 2, 2005, p. 2.

⁴ *Id.* p. 4.

⁵ *Id.*