

COVID-19 and workers compensation

How quickly the world has changed. While there are far greater issues at play for most of the community, for those of us who specialise in workers compensation there will undoubtedly be challenges ahead.

This “COVID-19 d’finitive” summarises our thoughts on issues you may currently or soon be facing – although given the speed of change, some of these thoughts may soon prove to be out of date! We have tried to keep our comments as general as possible so they are relevant to the full range of workers compensation participants.

If there is anything you would like to discuss, or if there is anything you think we have missed, please give us a call.

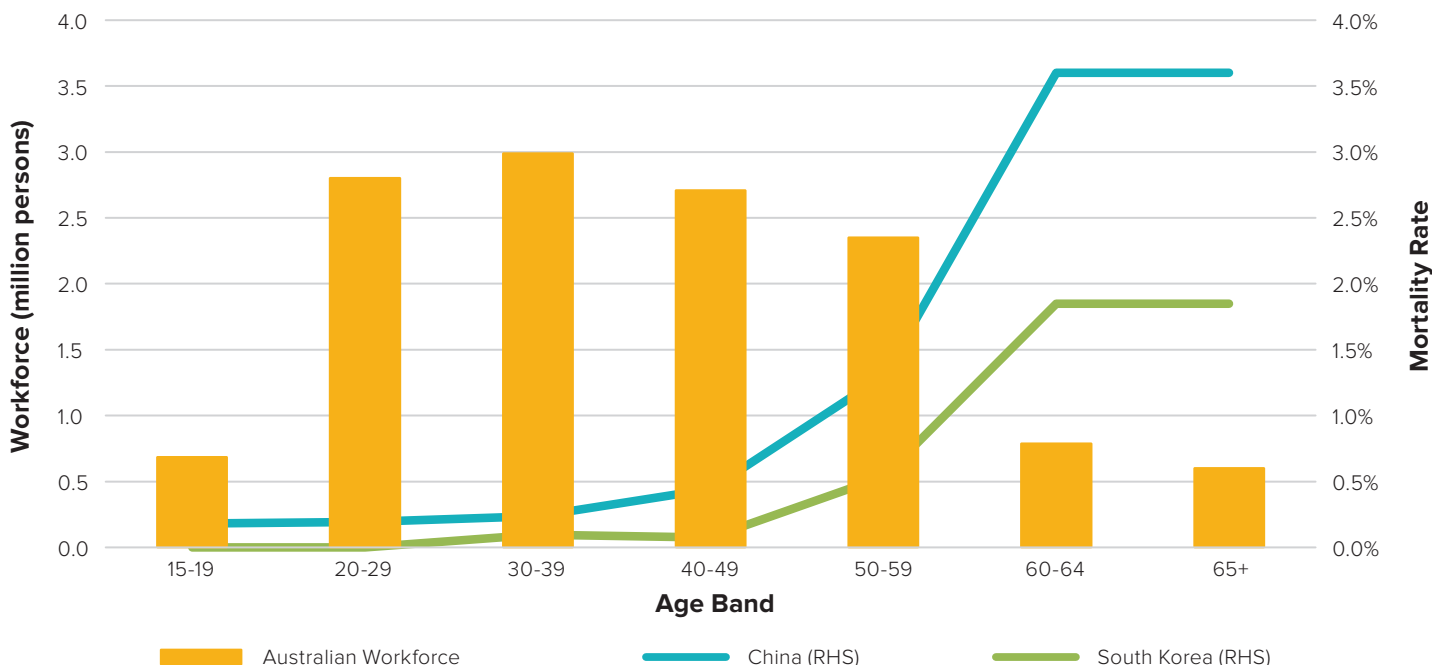
What do we know about COVID-19?

Whilst there is still a lot to learn, we know that COVID-19 is *not* impacting all people equally. The likelihood of disease, and particularly serious disease or death, has a very strong age related component (there is also a very high co-morbidity component, but that is not explored further here). The following graph shows the Australian workforce by age band¹ along with reported mortality rates for China² and South Korea³.

We have used statistics from China and South Korea because: China was the first country to publish detailed statistics on the number of infections and deaths, and South Korea has enforced social distancing measures similar to Australia and performed very high rates of testing.

The key features to note are:

- Just over 70% of the Australian workforce are aged under 50 years, where the mortality rates for China and South Korea are all less than 0.5% for those infected. However, it should be remembered that across 9 million people in the workforce this could still equate to hundreds, or perhaps thousands, of deaths even if only 10% of the workforce become infected.
- The other 30% of our workforce are aged 50 years or over, and at these ages there is a much greater risk of COVID-19 having severe impacts. If the information from China and South Korea is any indication, there will be many more severe COVID-19 cases from this group.
- The workforce is largely protected from the very worst of COVID-19’s impacts, as the mortality rate continues to rise sharply into more advanced ages (not shown).



Note The 60-69 age band mortality rates are shown for the 60-64 and 65+ age bands in the chart above.

1 Data from Australian Bureau of Statistics.
 2 Data from Chinese Center for Disease Control and Prevention; while there are media and research reports that question the reliability of some aspects of this information, the overall mortality shape seems instructive.
 3 Data from Korea Centers for Disease Control and Prevention.

From a workers compensation perspective, our working assumption is that there will be three main types of COVID-19 claims:

Cohort	Characteristics	Claim Size
Low severity, quick recovery	Those who have a mild dose and need to self-isolate for a couple of weeks, before then returning to work as normal.	<\$5,000: maximum of a couple of weeks of income reimbursement and minor medical costs.
High severity, but recovery	Those who require hospitalisation, some with extended stays in ICU, but who ultimately recover. At this early stage we are assuming there is no ongoing 'permanent impairment' that would trigger WPI (or like) thresholds, but this assumption needs to be monitored.	\$100,000+: high hospital and medical costs, with 1-2 months on income replacement. Costs will grow if there is permanent impairment.
High severity, leading to death	Those who die as a result of the COVID-19 disease.	>\$500,000: full death benefit, plus some medical and hospital costs, plus any dependant benefits.

As discussed further below, it is important to remember that not every COVID-19 diagnosis will be eligible for workers compensation benefits. The combination of different 'shapes' in workforce demographics, the upward sloping incidence and mortality curves, and (we expect) very different likelihoods of being able to link a COVID-19 diagnosis to work, means there will be highly variable impacts across different workers compensation portfolios.

As also discussed below, even if an insurer is not likely to get many or any direct COVID-19 claims, there are still likely to be numerous other impacts that impact on workers compensation portfolios.





How will this impact on workers compensation?

For ease of explanation, we have broken our thoughts into a few key areas:

• Changing patterns of work

- There are **major disruptions to normal work patterns**, with some employers and industry segments experiencing virtual shutdown overnight with staff 'stood down' or (particularly for casuals) made unemployed. This will dramatically impact premium volumes in some portfolios, and impact on the opportunities for Return To Work (RTW) which we discuss further below.
- For those who are still working, there has been **a sudden and dramatic shift toward 'working from home' arrangements**. This changes the way work is undertaken, and therefore also changes the risk profile of how work is done.

• Direct claim impacts

- **COVID-19 claims** – the impacts will vary depending on the work being undertaken: for example, employers providing 'essential services' or other front line roles (read nurses, aged care, emergency services, pharmacists, and perhaps even supermarkets) face the potential for significant numbers of COVID-19 claims to emerge. Most claims will be low cost, but a proportion will involve death benefits being paid and this has the potential to translate into high additional costs.
- **'Normal' claims** – in some industries there will be fewer claims reported with so much work being shut down (remembering that this will also reduce premium volumes). Where employment is no longer available, there perhaps may also be an increase in 'wear and tear' type claims that would otherwise have gone unreported (for example the sore back that otherwise would have been put up with); keeping watch for any unexpected claim spikes in highly impacted workforces would be sensible to ensure claims are genuine.

- **Working From Home claims** – injuries that occur in the course of working from home are generally covered by workers compensation. The en masse shift to working from home is unprecedented, and will undoubtedly lead to some unanticipated impacts – whether they be physical or psychological in nature, the risk of new types of claims is real.
- **Psychological injury claims** – with the recent growth in psychological injury claims in most jurisdictions, this area could be a real concern through the COVID-19 situation. Increased work demands, changed work procedures, social isolation and difficulties with monitoring staff could easily lead to a significant spike in psychological stress claims.
- **Slowdown in RTW rates** – this is a big worry, particularly if the economic slowdown is prolonged, as the impacts can leverage right across the tail of currently open claims, as well as impacting any new claims that emerge. Whether due to claimant behaviour ("I don't want to go back to work in this environment"), employer driven impacts ("there's too much else happening for me to worry about suitable duties" or "all my sales have gone and my company is about to go bankrupt, you no longer have a job") or broader employment market trends (fewer people taking on a new hire), there is likely to be disruption to normal RTW outcomes.
- **Change to full entitlements** – for employers that are in full or near shutdown (e.g. airlines, several retailers, restaurants, etc), claimants who were on partial incapacity benefits may be transferred to total (full) incapacity benefits as there are no suitable duties to perform.



- **Indirect claim impacts**

- **Disruption to claims management** – keeping a healthy and engaged claims management team will be a job in itself. In a long tail portfolio this is key to the results that are achieved and, as we all know, the claim cost grows quickly as duration on benefit increases.
- **Difficulty accessing medical appointments and surgeries** – with the cancelling of most elective surgery, there will be some claims facing delayed recovery compared to normal. Similarly, there will likely be difficulty in getting normal access to IMEs and permanent impairment assessments.
- **Court delays** – with most (all) courts suspended, damages claims will be delayed. This may or may not have a negative impact on the cost of damages claims (but it is unlikely to be positive).
- **Unexpected changes in the behaviour of other scheme participants** – we don't know who or what, but there's always the risk that somebody will do something unexpected that makes things harder... The dispute resolution system might be an area to watch in this regard.

- **Other financial consequences**

- Just in case the above impacts weren't enough to worry about, **most asset portfolios will have reduced in value** in recent months, and there is also **likely to be material discount rate changes** to compound the balance sheet impacts.
- For private sector and self-insurers, upcoming **reinsurance renewals may also be challenging**, depending on how the reinsurers interpret the risk in the workers compensation book.
- And for self-insurers, it is likely that **financial (bank) guarantees may also need to be increased** if there is growth in the claims liabilities and expected future costs due to the combined impact of the above factors.

The severity and duration of each of these impacts will vary widely, and industry specific factors will play a key role in how long it takes to get back toward 'BAU'. For example, the tourism sector seems likely to face a slower recovery than the construction industry.

As such, we expect there will be significant differences in the impacts experienced by individual portfolios.

5 big unknowns...

1. How many COVID-19 claims will emerge, and how severe will they be?

At this stage all we can do is speculate on what the community level impacts will be. While it's way too early to say with confidence how this will play out, we do know there are lots of portfolio specific characteristics that are relevant to how impacts will manifest, and some educated guesses on likely impacts will be needed.

2. How many COVID-19 diagnoses will be eligible for workers compensation?

The rules about how and when a disease claim is accepted under workers compensation laws vary by state. In simple terms, the claimant must satisfy a legal test that is some version of: (1) their COVID-19 disease was 'out of, or in the course of, employment', and (2) that employment was a 'significant', 'substantial' or 'main' contributing cause of the injury. The application of the various versions of these legal tests around Australia will be paramount to the cost that ends up falling to insurers.

At this point in the COVID-19 pandemic, if a worker has a frontline role and can demonstrate coming into contact with the disease through that role then their claim will likely be accepted. However, as the rate of community transmission increases it will generally get harder for a worker to demonstrate that employment was the cause of their disease, and this is where the application of the legal test will get very important (particularly if community wide infection rates get to material levels); that said, for certain industries and occupations there will likely be a presumption that a COVID-19 diagnosis came from work when that occurs – for example those in the health sector that are in patient facing roles.

The scheme regulators may have a role to play here to help to clarify where the boundaries are (and therefore reduce confusion) and hopefully keep as many of these decisions as possible out of the courts.

3. How big a deal will psychological injury claims be?

This is another big unknown, but with higher workloads for some, more social isolation, and many people juggling working with kids in the background, and/or not in proper home office setups, the potential is there for more psychological injury claims to emerge.

Further, we are finding bits of research that suggest there will be groups of people with increased risk of mental illness (for example in: survivors of the disease, those in high contact with sick patients, those whose livelihoods are threatened). There may also be an increased risk of recurrence for those with pre-existing mental health conditions, and increased symptoms for those with current mental health conditions.

Employers should be encouraged to direct significant efforts towards the wellbeing of their staff working from home, to keep in regular contact and manage workloads, help maintain engagement and morale, and ultimately reduce the risk of future claims.

4. How long this will all last, and what happens to RTW outcomes in the meantime?

Another great question that we can't give a good answer to right now. We all know the importance of getting injured workers back to work, and so keeping focused on this should be the main goal of every claims manager.

5. Is workers compensation going to become a safety net scheme?

Workers compensation was not designed as an employment safety net. If the COVID-19 situation becomes prolonged, then the transition from workers compensation benefits to other forms of social support (including the new JobKeeper payment) will need to be considered once medical recovery has been made (subject of course to the relevant legal provisions operating in each jurisdiction).



What should I be doing now?

- **Make sure your business processes can deal with whatever turns up in the next few months** – IT, system security, payment processing, claims management, etc may all need to deal with some less than ideal operating situations in coming months.
- **Keep focused on the claim side** – how well your claims are managed and the ability to keep a RTW focus in this disrupted time will, in most cases, be the biggest driver of financial outcomes.
- **Think about your upcoming June valuation** – as indicated from the comments above, most portfolios are likely to see at least some impacts in the upcoming round of June valuations. If you need to start planning for this, or thinking about possible scenarios to ‘stress test’ the book, then these are all things that can be done now to anticipate the possible financial implications you are facing. Self-insurers may like to ‘warn’ senior management that an increase in the outstanding claim liabilities is likely.
- **Employer WHS obligations** – employers have a duty of care for the health and safety of their workers and others at the workplace, both whilst in the normal workplace (is there more you need to do to keep your staff safe from exposure to COVID-19?) and when the employee is working from home (including consideration of the mental health and other psychosocial risks to workers). Clear roles and responsibilities are needed for team leaders and managers to support this.

We are already seeing scheme regulators making moves on this issue, and I’m sure they will be keen to hear what is happening from you as well. For example, in NSW, SIRA has begun publishing statistics on claims reported by insurer type: [Click link here for Workers Compensation Claim Statistics.](#)

Interestingly, at the time of publication around 20% of the notifications to date were for ‘mental disorder’ injuries.

If you would like to discuss any of our thoughts please contact Andrew, Mark or your usual Finitive contact. Whether you need actuarial modelling or support with operational and claim strategies, our team of dedicated workers compensation experts are here to help.

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Please contact one of our workers compensation experts if you have any questions or comments on this newsletter.

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