



Federal Social Insurance Office

**R e p e r c u s s i o n s o f t h e K V G o n
I n s u r e r s**

Summary

SHa/RP/JE/RI

28.11.01 1108-Zus//E98_004_SB_ZF_e.doc



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Zertifiziert nach ISO 9001/14001

Summary

Objectives

This impact analysis deals with the repercussions of the Federal Law on Sickness Insurance (KVG) on insurers. Its function is a synthetic one, in that the results of previous evaluations are completed by targeted ad hoc analyses and surveys. It should provide answers to the following questions:

- What internal changes have been introduced by insurance companies as a result of the KVG?
- How has the attitude of insurers towards the insured and service providers changed?
- How have relationships between insurers themselves been modified by the law?
- Has the KVG made insurers globally more competitive?
- To what extent have changed attitudes of the insurers contributed to damping health costs? What impact have they had on the other objectives of the KVG (reinforcing solidarity, improving quality of services)?

Methodology

The repercussions were assessed in two steps:

1. A before/after comparison of the situation as it was under former (KUVG) and current legislation (KVG) assesses the extent to which insurers' are more market-driven, their competitiveness, the intensity of competition and the costs of service providers.
2. A causal analysis examines the influence of the KVG on changes observed in insurers' practices.

The following methods were used:

- Analysis of the changes in the insurers' market-orientation caused by the KVG.
- Evaluation of previously existing impact analyses.
- Short case studies of 23 insurers through individual interviews and analyses of business reports to investigate their competitiveness.
- Seven complementary individual interviews with insurers' associations and the relevant authorities, plus an evaluation of 10 protocols of interviews conducted

with insurers' associations as part of the analysis of the repercussions of the KVG on tariffs (INFRAS 2000).

- Analysis of the insurance market (market structure and results), based on data from a survey relative to premiums conducted by the Federal Social Insurance Office (BSV) to assess the intensity of competition.

Repercussions of the KVG on insurers' behaviour

The KVG has not fundamentally modified insurers' entrepreneurial room for manoeuvre. This continues to be severely limited by the fact that their product is standardised (uniform list of services covered), by the product structures (for example deductibles, rebates, etc.) and the influence they exert on pricing health care services. The major changes arising for insurers from the KVG are:

- Rising health care costs and decreasing solidarity have led to greater public and political pressure to curb costs.
- The uniform premium for all insured by the same company, and the freedom of clients to choose their insurer, significantly influence the design of insurance products and the competitiveness of insurers. Group policies, limiting one's insured to a specific group of individuals (for example an association) and risk-related premium pricing are all excluded under KVG provisions.
- The introduction of risk compensation (relative to age and sex) for a limited period of ten years, and the right of the insured to choose their insurer (free movement) curtail insurers' possibilities to select clients on the grounds of the risk they represent.
- Special insurance models (optional deductibles, bonus insurance, and alternative models with a limited choice of service providers) have definitely been introduced.
- The new rule relative to hospital financing, according to which insurers may contribute not more than 50% to the coverage of the running costs of general wards of subsidised hospitals, has influenced tariff negotiations.
- The obligation to comply with the insurers associations' contracts, i.e. the ban on special contracts, has been abolished. This means that insurers may now reach agreements with service providers independently of their associations.

Rising health care costs, which are mirrored by rising premiums, are the most powerful incentive for insurers to change their market conduct. Insurers have to pay more for a

greater number of services partly as a result of the KVG itself, which extends the list of health services covered by insurance, and abolishes subsidies. In part this is due to greater client expectations, to technological evolution and the attitude of service providers. Rising health care costs have led to greater political and social pressure to adopt cost-cutting solutions, and put more economic pressure on insurers. This has encouraged insurers to evolve from principally administration-oriented, to market-oriented firms. Together with the new provisions under the KVG (see above) this pressure has led to significant internal changes, and modified attitudes among insurers towards both their customers and service providers. These in turn have reinforced competition (see Figure Z-1).

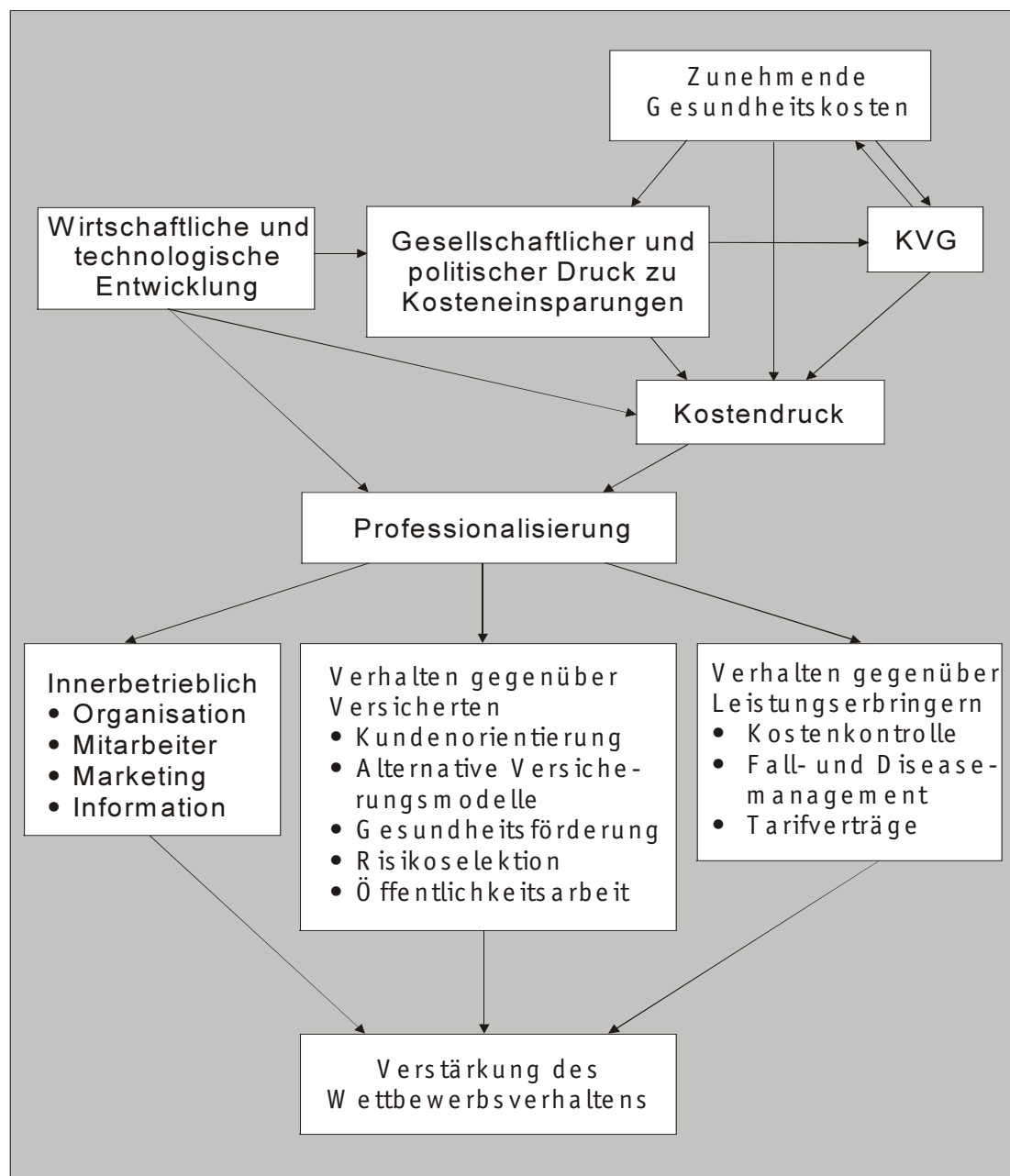


Figure Z-1: Factors and impact of the KVG: the economic evolution, rising health care costs, political and social pressure and lastly the KVG itself generate cost pressure on insurers. This in turn causes them to become more professional at all levels and more competitive.

((Tabelle oben – es ist mir nicht gelungen reinzukommen, bitte einfügen:

Rising health care costs

Economic and technological evolution

Social and political pressure to curb costs

KVG

Cost pressure

Professionalism

Internal: Organisation, Staff, Marketing, Information

Conduct towards the insured: Customer orientation, Alternative insurance models, Health promotion, Risk selection, PR

Conduct towards service providers: Cost control, Case and disease management, Tariff agreements

Increased competitiveness))

The influence of the KVG on the professionalism, competitiveness, and intensity of competition between insurers is discussed below.

Professionalism

By exerting greater cost pressure the KVG speeded up the trend towards professionalism among insurers, and gave rise to internal changes, increased customer-orientation and improved services:

- Generally, one may observe a shift from traditional "funds" to modern insurance companies, accelerated by the KVG, although this evolution in corporate culture affects primarily the large insurance companies.
- Many large insurers conduct a fundamental assessment of their organisational structures and work processes and optimise them with a view to greater customer orientation. Medium-sized and smaller insurers concentrate on expanding their organisation to meet growing customer numbers, and on adapting procedures in consequence.

- Insurers have improved their professional qualifications. The leading ones – and some of the runners-up – have acquired new knowledge in the areas of managed care and service contracting, management and computer technology. There are more training opportunities. As a result, it is becoming rarer for insurance business to be conducted as a side-line.
- Major insurers have reinforced and systematised their marketing strategies, partly because of the introduction of supplementary insurance. They conduct periodic market analyses and use datawarehousing to upgrade their internal data bases and evaluations. As for medium-sized and small insurers, the KVG has at best improved their regional marketing strategies.
- Insurers have invested considerably into computer-assisted solutions. The requirements imposed by the KVG (especially TarMed) speeded up this development.
- Alongside rising customer demands and stronger competition through services, the KVG too has improved insurers' customer orientation and the quality of services they provide. Customer contacts, information and counselling have become more intense. Benefits are paid more rapidly.
- All insurers have been encouraged to improve their PR and lobbying activity by the KVG. Especially the large insurance companies have intensified and professionalised their PR, and become more image-conscious.

The pace of professionalisation has been variable for different insurers. In any case, it has to be viewed in the context of the time required for corporate evolution and the additional potential generated, which is considerable.

Competitiveness

The KVG has boosted competition among insurers. Changes have not been as significant as was expected, however, since competition still focuses primarily on premium-pricing and risk selection. The objective is moderate "qualitative" growth. Free choice of insurers for the insured, the uniform premium, and cost pressure, stepped up the trend towards risk selection. The quality of services and corporate image play a greater competitive role. Active cost management, alternative insurance models and tariff competition are less important for insurers' competitive strategies.

- Rising cost pressure has improved cost control. It is still lacking however, almost always limited to purely formal billing control, and to inpatient treatment. Due to

incomplete data (lacking diagnostic codes), services are practically never assessed for adequacy and effectiveness (cost-effectiveness analysis). Electronic settling of bills is still the exception.

- Only the major insurers conduct case and disease management, and even they are still at the test stage.
- Only the largest implement health promotional measures, and they do so moderately. For the time being, in view of the fact that the impact of these measures is little known, that it may make itself felt only in the longer term and the right of the insured for free movement. They are not perceived as an important cost control measure by insurers as yet.
- Alternative insurance models have neither been strongly developed, nor have they gained in popularity. Several reasons may be cited for this. The insured don't want to be limited in their choices. Service providers (primarily physicians) are not willing to assume economic risk, since they are protected by the legal obligation imposed upon insurers to cover their services (Kontrahierungszwang). Insurers too are not in agreement concerning the effectiveness of alternative models, so that the overall situation here is relatively unclear.
- Although insurers jointly exert greater pressure on tariffs, tariff-related competition has not grown stronger with the abolition of the obligation for insurers to comply with their associations' contracts. Incentives for tariff partners to reach agreements independently of associations are small, so the decartelisation effects have been minimal. Possible repercussions are still unknown, and new tariff models have not made progress.

Thanks to its new requirements, the KVG has fostered targeted cooperation between insurers, with a view to improving their competitive position. Although alliances between the largest insurers have not proved successful, medium-sized, small and even some of the larger insurers have been able to cooperate in the areas of service contracting, managed care, and supplementary insurance.

Intensity of competition between insurers

Competition between insurers is greater since the introduction of the KVG. It focuses primarily on competing for customers who represent a good risk. It was mainly the medium-sized and small insurance companies who benefited from this development, strongly increasing their market share to the detriment of the major insurers. In other

areas, however, competition under the KVG has not really intensified, and its overall level is modest. This is above all due to the fact that the market in obligatory insurance is highly regulated, and to the many obstacles to competition (premiums and tariffs cannot be freely set and risk compensation is insufficient).

Influence of insurers on health costs

Expenditure for services covered by insurers under the obligatory health services insurance continued to grow under the KVG. In 2000 it was almost 30% higher than in 1996. Insurers have only limited possibilities of influencing the cost of services they have to cover. They may influence service costs through tariff negotiations and the control of service providers' bills, but it is much more difficult for them to steer the volume of services through alternative insurance models and case management. Until now, in fact, insurers have hardly had any influence at all on the costs of service providers, and have thus not met the hopes set in them. The influence they have had on damping costs may be outlined as follows:

- Stronger control of service providers' bills enabled several major insurers to save up to 10%. Savings for medium-sized and small insurers are estimated at 2% to 3%.
- Although insurers expect savings to be generated by case and disease management, these potential savings are as yet not regularly quantifiable.
- Tariff pressure by insurers has not given rise to relevant savings, but to bypass reactions by service providers (shifting costs of inpatient treatment, and expanding volume for outpatient treatment) and to a deterioration of services and quality (primarily as concerns care, training and cost-intensive services). We may assume that the new forms of tariff-setting have had a similar effect.
- According to first estimates, savings due to alternative insurance models amount to 10% to 15%. Due to their low level of popularity, they have little influence on service costing however.
- Health promotional measures are as yet extremely limited; their cost-curtailling impact is correspondingly small.
- Insurers' administrative costs currently amount to 6% or 7% of the net benefits they pay, and are thus relatively low in comparison to private insurers. The introduction of the KVG upped administrative costs as a result of increased administrative procedures. They then fell, only to slightly rise again in the recent past.

The changes in insurers' behaviour jeopardise the other objectives pursued by the KVG to a certain extent:

1. Continued risk selection counteracts solidarity.
2. Increased cost pressure on service providers may impair quality.

Overall assessment and recommendations

Basically, insurers are expected to make active use of the more liberal insurance market created by the new law to cut costs without jeopardising the other objectives of the KVG. They are above all encouraged to become more competitive; competitiveness should not be exercised through risk selection however, but through improved cost management measures. If one compares the relevant evolution and its impact on health care costs with the repercussions that were originally expected, one can see that insurers have yet not fulfilled relevant expectations:

- The KVG speeded up the trend towards professionalism, and has made insurers more competitive. The level of professionalism achieved until now must be viewed in the context of further potential room for improvement. Competitiveness did not develop in the desired way, and insurers continue to concentrate above all on premiums and risk selection. Active cost management, alternative insurance models and competition in tariff-setting continue to play a secondary role in insurers' competitive strategies.
- There is more competition between insurers, with a focus on clients who represent a good risk for them. The intensity of competition as such has not increased over the past years, and continues to be rather moderate.
- Until now, insurers have hardly influenced the costs of service providers. Savings focus on billing control, whereas alternative insurance models hardly make themselves felt.
- Changes in insurers' behaviour to a certain extent counteract the law's other objectives.

When assessing the law's impact on insurers until now, the following factors have to be taken into account:

1. Insurers continue to be bound by numerous regulations and have little entrepreneurial room for manoeuvre. In conjunction with the ban on profit-making, this

renders the obligatory insurance market not a particularly attractive one. It hardly fosters innovations or stronger competition through new products.

2. Modified behaviour relative to greater market-orientation or the development of innovative alternative products requires time. The present evaluation provides a snapshot of a dynamic evolutionary process and assesses the short-term repercussions of the KVG on insurers. The KVG speeded up and strengthened several trends (above all towards greater professionalism, more stringent control of billing, gathering practical experience of alternative insurance models, tougher tariff negotiations). Further progress in this direction will take time. We expect insurers' strategies to evolve in the direction of more intense health management only if premium pressure grows or if framework conditions are modified (for example if the obligation to cover services is abolished).
3. Market results are strongly influenced by "external" factors (above all the behaviour of the insured and of service providers, regulatory interventions, technological development). These factors limit the insurers' possibilities of influencing the costs of services they are obligated to cover.

The following general recommendations, based on expectations and changes that are already observable, are addressed to insurers:

- Professionalism should be consequently pursued in all areas.
- Insurers should develop and implement long-term innovative strategies, moving from short-term oriented risk selection towards comprehensive health management strategies and the savings generated thereby.
- Alternative insurance models should be developed and popularised. Case and disease management should be intensified in order to optimise the interfaces in the treatment chain. In tariff-setting, models should be developed and tested that account for the entire treatment chain.
- Billing control should be improved, above all for outpatient treatment, alongside cost-effectiveness and quality controls.
- Cooperation and dialogue with service providers should be improved and intensified (data set, tariff negotiations, new forms of setting tariffs, case and disease management, managed care) .

The following general recommendations relative to intensifying competition between insurers and curbing health costs are addressed to the authorities:

- Risk compensation should be improved. On the one hand this would make risk selection even less attractive, on the other it should not reduce incentives to pursue cost curtailment.
- The possibility of abolishing the obligatory coverage of services (Kontra-hierungszwang) ought to be examined. This might benefit the alternative insurance models above all.
- The political control of premium prizing ought to be evaluated.
- An increase of the maximum optional deductible and the resulting rebates ought to be examined in order to encourage the insured to be more self-reliant.