

Competition in the Private Health Insurance market
IRISH MEDICAL ORGANISATION SUBMISSION TO THE
HEALTH INSURANCE AUTHORITY AND THE COMPETITION
AUTHORITY

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1.Introduction

This submission on behalf of the IMO to the Health Insurance Authority and the Competition Authority will examine under the terms of reference the specific areas of importance that the IMO considers relevant in relation to competition in the Irish Private Health Insurance Market.

Areas that will be examined include the prominent position and status of the VHI in this market and the relevance this has in relation to competition. This submission will analyze this in relation to the Government's influence and relationship with this organization.

Barriers to switching PHI providers will be looked at in the context of the VHI's near monopoly status, as well as the practical and demographic barriers to movement in the market.

Key legislation will be examined, specifically in relation to risk equalization and community rating and the consequences these have for encouraging or impeding competition.

2.Examine market structure in relation to private health insurance, and identify relevant sub -markets, if they exist. These markets will be analysed from the perspective of restrictions on the degree of rivalry, barriers to entry and barriers to switching private health insurers.

It is the IMO's position that any examination of the PHI market must address the position of the VHI as the dominant entity in the Irish PHI market. The VHI holds the position of dominant player with a market share of approximately 76%. Within this context from the perspective of an external PHI provider considering entry into the Irish market, competition unsurprisingly, is perceived to be weak.

Ireland is an unusual market in health insurance terms, dominated as it is by the State owned insurer. This deterrent to competition could be argued to have negative

repercussions for the market as a whole, which would otherwise benefit from increased competition.

Insurance market competition can improve efficiency in two ways. First, it encourages insurers to minimise administrative costs and improve services to the insured. Second, the pressure from selective contracting by insurers among competing health care suppliers can encourage more efficient health care provision. This does, however imply a number of insurers in the market, certainly more than the three main participants we see currently.

The IMO would state concern in relation to the power leverage that it possesses. As the VHI has a near monopoly on health insurance it could in effect set prices for procedures as it wishes and should a medical practitioner decide not to agree to these fees, in effect they could potentially lose all insured private patients and their practice could suffer greatly. Similarly, private hospitals have had little negotiating power against the VHI due to their near total dependence in the past on coverage by the VHI for their viability.

The VHI presently holds in excess of 76% of the health insurance market in Ireland. VHI is the largest single undertaking in Ireland with excess of 1.56 million members. In addition VHI is subject to numerous economic and regulatory advantages provided by the state, which its competitors cannot avail of. These include: -

- No requirement to carry any solvency. This in effect provides VHI with free capital that it can use as it wishes –its competitors by contrast must set aside 40% of their capital as reserves. The VHI has been permitted by the State to use these reserves to engage in two below cost premium increases.
- The VHI is exempt from all Financial Regulator’s consumer prudential regulation –hence providing VHI with much lower cost of compliance.

The VHI has been permitted by the state to leverage its dominant position within the health insurance market into a number of secondary financial service markets, in

particular that of travel insurance by tying both products. In one year VHI has gained 26% market share in the multi trip travel insurance market. The IMO would express concern that the VHI has been permitted by the State to vertically integrate and become a health care provider (through the opening of the Swift care clinic) –no other insurance undertaking within the European Union could replicate the VHI model. How and to what extent the level of cross –subsidisation by the VHI of this clinic is unknown.

It is the IMO's position that the Government needs to send a clear message regarding what kind of body the VHI will be in the future. This is necessary to attract competitiveness in the PHI market. This is specifically relevant in the area of stability of demand, the more stable the market, the more attractive it is .The status of VHI, as a state owned body has a unique affect on this stability.

The current status of the VHI introduces the scope for major fears among potential investors in the health insurance market that they will not be competing on a completely fair basis as long as VHI remains publicly owned and it has a direct correlation to the level of premiums that the consumer can expect to pay. The level of subscription charges granted to VHI by the Government each year is growing and other companies usually follow suit in increasing their charges

Government intervention in subscription pricing levels can have a major impact upon competitiveness. The level of subscription increases granted to VHI by the Government each year has been growing and the other companies usually follow suit in increasing their overall prices. In response to VHI market dominance, increased competition is welcomed by the IMO on the basis that the consumer will be offered a greater variety of health products at more competitive prices.

Taking this stance into consideration, it should be noted however that it is also the case that not all forms of competition are necessarily beneficial to consumers. Rivalry among insurers on the basis of lower prices and /or more or higher quality products benefits consumers. Overall, competition between insurers that increases the total uptake of private health insurance by young people could benefit existing consumers

to the extent that the new low risk members are distributed in proportion to existing higher risk members.

But competition between insurers for these younger members may not benefit existing consumers with insurers who have a higher risk profile. If new insurers recruit young people at an artificially low premium, based on their lower risk profile, there is no gain to consumers with other insurers.

3. Identify and analyze industry practices, legislation and or administrative practices in private health insurance in the State that limit the degree of rivalry in the marketplace to the detriment of consumers.

It is the IMO's position that the burgeoning costs of health care is an issue that governments worldwide are being forced to review. Increasing demands on the available healthcare funding, largely due to demographic changes, increasing demands for better and more rapid medical technological progress, necessitate reform of both public and private systems of health care funding and financial accountability to maintain a competitive marketplace.

The IMO would take the view that the difficulty that exists in assessing costs in the Public Health Sector can have a negative impact on competition in the PHI market. The basis of costing practices in public hospitals in the state could be considered opaque, leaving it difficult for insurers to assess costs and make long term financial costing projections.

Competition in the Irish Health Insurers market is based upon the ability to access good information in relation to procedures and costs in the public hospital health sector, which at present is inadequately available. This inability to provide concise information can also act as a deterrent to outside PHI companies evaluating the competitive viability of the Irish PHI market.

All three health insurance companies are to a large extent limited in what they can offer by the necessities imposed under our health system. Medical inflation means that these costs are bound to increase fairly substantially each year. The insurance providers are also subject to what the Government decides to charge for beds in public hospitals, over which the insurers have no control.

In Ireland, the key principles of community rating, open enrolment and lifetime cover have played a crucial role in making private health insurance accessible to a substantial proportion of the population and, in particular, the elderly high-risk groups, are mandatory requirements for all health insurers operating in the Irish market. These principles have allowed for greater accessibility for PHI access and as a result increased market access for the PHI providers who otherwise would have faced a market with more unwillingness to acquire PHI.

In order for community rating to be sustainable and not have a negative impact on competition, it is necessary for the PHI providers to cater packages and target the younger demographic by ensuring that obtaining PHI cover is seen as an attractive and beneficial investment.

Unless the number of young and healthy people subscribing to health insurance rises at the same level as the number of older, higher risk individuals, health care costs in both the private and public sector will escalate. If the better risks opt out of the community rated system, higher premiums have to be charged to cover the remaining risks. This can have a spiralling effect, as observed amongst Blue Cross/Blue Shield insurers in the United States and the traditional insurers in Australia.

Since 1991, every Irish citizen is entitled to free hospital services, subject only to the payment of a statutory levy. Accordingly, many young, low risk people may decide to “self-insure”, abandoning private health insurance with the knowledge that they can access the public hospital system if in need of high-cost procedures. In order to keep the PHI market buoyant, it is imperative that PHI providers ensure that their packages catering for the younger populace are worthy enough to discourage self – insurance.

If an exodus of low-risk members from private health insurance occurs in Ireland, the continued feasibility of a health insurance system based on community rating will have to be reviewed with serious implications for health insurance subscribers.

4. Identify barriers to switching private health insurers, analyse their origin, and where appropriate, make recommendations to have unnecessary barrier to switching removed.

It is the IMO's position that in order for the PHI market to remain competitive for the three main providers, remove barriers to switching PHI providers and to encourage any future entrants to the market, younger subscribers need to know that in their later years the benefits appropriate to their needs will be available.

Equally, if long-term subscribers are to continue in membership or consider switching providers when their disposable income is markedly reduced and the cost of subscribing relatively greater, they must be assured that the benefit arrangements provide for the costs of the illness to which they are prone and for appropriate related services. Benefits should not be structured to constructively exclude such costs.

Uncertainty amongst the general public can deter consideration of switching providers. This is relevant also in relation to stability of demand, the more stable the market, the more attractive it is. It is the position of the IMO that the status of the VHI as a state owned body is directly affecting this perception. This introduces the scope for major fears among potential investors in the health insurance market that they will not be competing on a completely fair basis as long as VHI remains publicly owned.

The current high court action taken by BUPA in relation to Risk Equalisation is currently acting as a deterrent to consumers considering the possibility of switching PHI providers. As there stands an uncertainty as to the future position of BUPA in the PHI market or indeed if it will remain if the court decides to uphold RE, consumers are currently cautious about switching, this also has direct relevance for the third PHI provider VIVAS.

It is the position of the IMO that the level and diversity of products available will influence the consumer in relation to switching providers. A wider range of products provides consumers with greater choice and gives providers greater flexibility in terms of marketing strategy. Continuous modification of products allows the provider to retain existing members whilst catering for different concerns and wants of the consumer during the course of their membership. Insurers have an incentive to develop products targeted at low risk lives because of the typically lower claims costs associated with this group.

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It is the IMO's opinion that the schedule of benefits for surgical operations covered by PHI providers is relatively short and has not updated to provide for changes in practices or new procedures. This failure to create a comprehensive schedule that includes non – procedural services has led to generic product available to the consumer and has reduced the level of switching of providers that would otherwise occur.

The IMO urges that in the proposed Health Insurance Act, the Minister for Health should ensure that a basic plan provides comprehensive and equal access for all acute illnesses at all hospitals

(General Motion 28, 1994)

The Minimum Benefit Regulations act as a price setting mechanism and in effect restrict competition both from a pricing and a product perspective. As every health insurance product must contain minimum benefits (e.g. maternity benefits), the scope for an insurer to create a specific product around a preferred provider network is impossible. The system must still be capable of providing the minimum benefit

should the consumer choose to opt out of the network. In addition the pricing of health insurer products must factor minimum benefit payments.

VHI as a former monopoly and with a huge dominance, influences and sets the standards for price, extent of cover and benefits within health insurance. VHI as a state owned statutory body is perceived to be the safe option that will cover all procedures required. Hence, consumers are influenced and have come to expect (from competitors) that they must at least match the VHI product offering.

A limitation on the number of consultants participating with a new undertaking is viewed with suspicion by consumers. Consumers have also come to expect that their shall be direct settlement – if the VHI is direct settling with most consultants and hospitals but a new entrant is only offering a limited range the market will not accept such a restriction.

Other factors that can inhibit consumers switching PHI providers include: -

- There is a lack of clear information from the HIA in relation to the different products available and provided by the three PHI providers.
- There currently exists a reluctance of employers to provide multiple insurance schemes to their employees.
- There exists reluctance by company pay roll departments to cater for deduction of multiple insurance scheme deductions at source.

5. Identify duties that could be assigned to the Health Insurance Authority under existing legislative provisions and additional functions that might possibly be assigned to The Health Insurance Authority.

As stated previously, there needs to be a greater level of provision of information in relation to PHI. For most other forms of insurance, the general public can access more information in relation to product types and general industry information. The HIA could develop further as an information provider, with industry and consumer guidance.

There may be a concern from potential entrants to the Irish PHI market that it is already over regulated and this would call into question the objectivity of the HIA. Since the HIA is a government organisation under the umbrella of the Department of Health and Children, there could exist concerns as to its credibility in regulating a fair and competitive market, in respect of the obvious connection to the state sponsored VHI.

It has been suggested by some quarters of the PHI industry, that in order to counter these concerns, the HIA should be incorporated into the competition authority, as this would have direct correlation to ensuring the prevention of anti competitive and bad industry practices.

As referred to previously, there is confusion and cost for existing and potential PHI providers in dealing with two regulatory bodies, by incorporating the HIA into the Competition Authority it would create a main focal point for advice and regulation.

6. Identify and analyse any implications for competition of existing primary and secondary legislation affecting private health insurance.

It is the IMO's position that CR should continue and is contributing to making the Irish market competitively attractive.

The IMO supports the concept of community rating in healthcare insurance

(General Motion 15a, 1992)

In Ireland, the Health Insurance Act, 1994 requires all healthy insurance undertakings to comply with the principles of community rating, open enrolment and lifetime cover. The principles of community rating is underpinned by requiring all health insurance undertakings offering cover for hospital in-patient services to provide a minimum level of benefits.

Community rating is a rating under which the cost of a particular level of cover is same for all insured lives, regardless of their risk status. A health insurer must charge

the same rate of premium for a given level of benefits irrespective of age, sex or health status. Community rating has made health insurance an option for all demographic sections of our society and has contributed to the unusually high level of those in the population who hold health insurance cover.

The key principles of community rating, open enrolment and lifetime cover have played a crucial role in making private health insurance accessible to a substantial proportion of the Irish population and in particular the elderly and high-risk groups and are mandatory requirements for all health insurers operating in the Irish market.

It is the IMO's position that PHI providers can cater their benefit options in a competitive manner within a community rate market. Section 7 of the Health Insurance Act prohibits the making of non-community-rated health insurance contracts.

However, the section allows the provision of discounts for children, persons between the age of 18 and 21 years who are in full time education and dependant on the subscriber, pensioners who are members of existing restricted membership schemes and groups of persons (group scheme discount limited to 10 per cent of the standard rate). It should also be noted in examining community rating in the competitive context that covers for long-term care is not community-rated.

The Health Insurance Act provides for a risk equalisation scheme which, having regard to the operation of the principles of community rating, open enrolment, lifetime cover and related matters, provides for the sharing of certain adverse risk factors amongst undertakings.

Opponents of risk equalisation find it incompatible with principles of competition and believe it will discourage insurer's efforts at containing cost. They also indicate the RE seeks to prevent a threat to the market that, in their view is only hypothetical at the moment. In the absence of such a scheme however, it is the IMO's view that there is the potential that insurers could compete on the basis of attracting a more healthy pool of clients.

It is the opinion of the IMO that the risk equalisation scheme is intended to be used to ensure that in a community-rated system with an open enrolment no insurer suffers disproportionately heavy claims experience because of preferred risk selection by other insurers operating in the market.

In the absence of adequate risk equalisation within an individual market subject to community rating and open enrolment, there will be large incentives for risk selection, and potential adverse effects on equity and market efficiency. Risk equalisation is a necessary feature in a community rated market and the IMO would support the belief that statutory provision for risk equalisation is appropriate in the Irish market.

There is a danger in a community-rated environment that insurers may seek to circumvent the principle of inter-generational solidarity by targeting low-risk groups to the exclusion of high-risk groups. This practice, known as “cherry picking”, often involves selective marketing techniques, such as targeting groups with low average ages or with packages that appeal to younger healthier customers, and discouraging older high-risk subscribers.

That the IMO urges that the proposed Health Insurance Act incorporate provisions including the monitoring of case-mix in both public and private hospitals, to identify “cherry picking” and risk avoidance by insurance companies, especially in relation to services for the elderly

(General Motions 25, 1994)

The experience in other countries is that where competing health insurers select preferred risks in a community rated environment this leads to a spiralling of costs with a rapid deterioration in the financial position of those insurers with poorer risk profiles, thus leading to instability in the market.

Without the statutory equalisation of risks between insurers, open enrolment would be effectively unenforceable as insurers could seek to use product design and selective marketing techniques to obtain preferred risk profile.

The IMO believes that any application of risk equalisation must ensure social equity. Cross subsidisation should not occur when the risk equalisation arrangement is operated. Equalisation should be at the statutory minimum levels rather than at the level of the most subscribed –to-plan of one particular insurer. In addition, a risk equalisation scheme must not penalise efficiency and compensate inefficient operators.

Conclusion

In the course of this submission, it has been the intention of the IMO to outline within the terms of reference, the areas it feels are of significant importance in relation to competition in the PHI market.

This submission outlined specific areas of concern whilst remaining consistent with IMO policy in relation to key areas such as Risk Equalisation and Community Rating which though viewed by some quarters of the PHI industry as anti competitive, nevertheless remain supported by this organisation.

The key area of the status of the VHI was addressed, as it is the position of the IMO that this has direct consequences for all the areas specified under the terms of reference.

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