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Competition in Health Insurance – Reflections from Germany

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Overview

1. Health insurance in Germany
2. Competition and consumer mobility in Germany
 - Social health insurance
 - Private health insurance
3. Policy implications



Health Insurance in Germany

Private Health Insurance

Social Health Insurance



Social Health Insurance in Germany

- 85 percent of the population
- Income-dependent premiums
- Standardized basket of services
- 250 competing health insurers
- Risk adjustment mechanism
- Full consumer mobility
- No waiting periods
- Contracts with health care providers
- Low administrative costs (5-7% of total expenditures)



Functions of Private Health Insurance

- Substitute for public coverage
 - Part of the population is not covered by public system at all
 - Part of the population may choose between public system and private health insurance
- Supplementary or complementary private health insurance
 - Services not or only partly covered in public system (supplementary)
 - Co-payments in public system (complementary)
- Duplicate or double-cover private health insurance
 - Duplicate coverage although there is coverage in public system
 - No market in Germany



Private Health Insurance in Germany

- 10 percent of the population
 - High-income employees
 - Self-employed
 - Civil servants
- Risk-rated capital-funded premiums (only initial risk assessment)
- 80 competing private health insurers
- Basic contracts for some bad health risks (no risk-rating)
- Standardized basket of services only in basic contracts
- Waiting periods for individuals with no pre-insurance (3-8 months)
- No contracts with health care providers
- High administrative costs (15-20% of total expenditures)



Capital-Funded Premiums in German Private HI

- Two components of health insurance premiums
 - First component covers risk based on age and health status
 - Second component covers savings which are intended to cover increasing expenditures in older age
- Premiums are constant over a life-time...
 - ...if level of health care expenditures remains constant
 - ...if life expectancy remains constant
- Savings component is not portable



Calculation of Premiums

	Risk Solidarity		Income Solidarity
Income-Related	YES	Social HI	YES
Community-Rated	YES	Basic Contracts Private HI	NO
Risk-Rated	NO	Private HI	NO



Conclusions – Part 1

- Health insurance in Germany is dominated by social health insurance
- There is a considerable private health insurance sector which substitutes social insurance for part of the population – but no market for double-cover private health insurance
- Government increasingly regulates private health insurance
- Private health insurance industry fears that regulation will lead to „socialized“ private health insurance



Consumer Mobility: What is the Benefit?

- Exit-option is important to signal discontent
- Important mechanism to increase incentives for efficiency in health care delivery
- Framework of regulation in social health insurance
 - Open enrollment
 - Risk adjustment
 - Instruments for health insurers to manage care
- Costs of consumer mobility are considerable
 - Costs of regulation
 - Transaction costs for consumers



Competition and Consumer Mobility in Social HI

- Open enrollment
 - Consumers may switch after 18 months with health insurer...
 - ...or if health insurer raises price
- Health insurers offer products that are mostly homogenous
 - Few instruments to manage care
 - Standardized benefits package
- Incomplete risk adjustment
 - No health-based risk adjustment
 - Ample incentives for risk selection
 - Differences in contribution rates reflect difference in risk structure



Consumer Mobility in German Social Health Insurance: Who is Switching and Why?

- About 5 percent of consumers are switching each year
- Young consumers switch more often than old individuals
- Switching differences between good risks and bad risks are disappearing...
 - ...but good risks switch to cheap health insurers
 - ...and bad risks switch to expensive health insurers
- Most important reason to switch: price
- Differences in health care delivery slowly become more important



Price Elasticity of Demand

- Short-run elasticity of about minus one indicates distinct sensitivity of consumers to price changes
- Though short-term effects are moderate, permanent differences in contribution rates lead to dramatic changes of market shares in the long-run
- Magnitude of elasticity
 - Similar to other countries (Netherlands, Switzerland)
 - Theoretical perspective: Rather low for almost perfect substitutes



Competition in Private Health Insurance

- Fierce competition for writing new contracts
- Consumers are locked in after they have signed their contract
- Regulation relevant for consumer mobility
 - Savings component is not portable (-)
 - Re-assessment of risk for switchers (-)
 - Waiting period is waived for pre-insured individuals (+)
- Little incentives to improve efficiency for private health insurers
 - Restricted exit-option for consumers
 - High increase of premiums in older age



Conclusions: Part 2

- Competition and consumer mobility in social health insurance are rather fierce
- Competition is based on price. Differences in health care delivery are small, since health insurers have few instruments to manage care
- Competition and consumer mobility in private health insurance is restricted to new contracts
- After having signed a contract, individuals are locked in due to non-portable savings and re-assessment of health risks



Policy implications 1/4

- Competitive health insurance not necessarily needs to be private health insurance
- Social health insurance in Germany is fiercely competitive and maintains high standards of solidarity
- Private health insurance in Germany is neither competitive nor equitable
- Health insurance needs adequate regulation in order to become competitive



Policy Implications 2/4

- There are several instruments to increase competitiveness in private health insurance
 - Premium rate restrictions
 - Standardization of contracts
 - No exclusion of pre-existing conditions
 - Abolishment of waiting times
 - ...
- If private health insurance is regulated extensively it might look very similar to a public programme
- It is probably more efficient from a public policy point of view to introduce or to improve a public programme right away



Policy Implications 3/4

- Preferential treatment of patients with private health insurance coverage depends very much on provider remuneration
- If there are two parallel systems and providers gain more from treating private patients than from treating public patients, preferential treatment for the former will almost certainly follow. Capacities in the public sector will be drained



Policy Implications 4/4

- Preferential treatment of persons with private health insurance will only occur if something is amiss in the public system
- Strong demand for private health insurance is a good indicator for policy makers to come up with solutions for problems in the public system
 - Strong resistance of private health insurance industry
 - Strong resistance of health care providers
 - Strong resistance of private health insurance beneficiaries



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**Thank you very much for your attention. I am
looking forward to the discussion.**

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