Risk Sharing Models for Private Healthcare Insurance

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Key Messages from Paper

1. Complementary/supplementary health insurance models
   a) United Kingdom and other countries
   b) Insurers and their customers
   c) Medical service provider relationships

2. Risk Selection and Premium Rating
   a) Medical risk selection and underwriting policy
   b) Community rating schemes
   c) Risk equalisation schemes

3. Value Innovation
   a) Blue Oceans and Value Creation
   b) Physical and Virtual Value Chains
   c) ERM and TCF
### International Risk Adjustment - Models A

<table>
<thead>
<tr>
<th></th>
<th>United Kingdom</th>
<th>Ireland</th>
<th>Netherlands</th>
<th>Germany</th>
<th>Switzerland</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk adjusters</strong></td>
<td>Age / gender; prior utilisation; local factors</td>
<td>Age / Gender; Hospitalisation; Weighted with current expenses</td>
<td>Age / Gender; Region; Disability</td>
<td>Age / Gender; Disability</td>
<td>Age / Gender; Region</td>
</tr>
<tr>
<td><strong>Restrictions on premium contributions</strong></td>
<td>Zero premium contribution</td>
<td>Community rating</td>
<td>Community rating</td>
<td>Community rating</td>
<td>Community rating per region</td>
</tr>
<tr>
<td><strong>Risk-sharing</strong></td>
<td>Outlier risk sharing</td>
<td>See risk adjusters above</td>
<td>Outlier/proportional risk sharing</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Number of Health Plans</strong></td>
<td>2,500 (early 1996)</td>
<td>2 (until 1997: 1)</td>
<td>25</td>
<td>1200</td>
<td>166</td>
</tr>
<tr>
<td><strong>Modality A or B</strong></td>
<td>A</td>
<td>B</td>
<td>A</td>
<td>B</td>
<td>B</td>
</tr>
<tr>
<td><strong>Open entry for new health plans</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Open enrolment and frequency</strong></td>
<td>No open enrolment guarantee</td>
<td>Year</td>
<td>Year</td>
<td>Year</td>
<td>Half Year</td>
</tr>
<tr>
<td><strong>Is long-term care included</strong></td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Mandatory or voluntary membership</strong></td>
<td>Voluntary</td>
<td>Voluntary</td>
<td>Mandatory</td>
<td>Mandatory</td>
<td>Mandatory</td>
</tr>
</tbody>
</table>
## International Risk Adjustment - Models B

<table>
<thead>
<tr>
<th>Country</th>
<th>Russia</th>
<th>Czech Republic</th>
<th>Belgium</th>
<th>Israel</th>
<th>Columbia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk adjusters</td>
<td>Many different regional experiments</td>
<td>Age</td>
<td>Age / Gender; Region; Disability; Unemployment; Mortality</td>
<td>Age</td>
<td>Age / Gender</td>
</tr>
<tr>
<td>Restrictions on premium contributions</td>
<td>Zero premium contribution</td>
<td>Community rating</td>
<td>Community rating</td>
<td>Zero premium contribution</td>
<td>Zero premium contribution</td>
</tr>
<tr>
<td>Risk-sharing</td>
<td>Many different regional experiments</td>
<td>No</td>
<td>Proportional risk sharing - at least 85%</td>
<td>Severe diseases (6% of expenses)</td>
<td>No</td>
</tr>
<tr>
<td>Number of Health Plans</td>
<td>100's</td>
<td>26</td>
<td>6</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Modality A or B</td>
<td>A</td>
<td>B</td>
<td>A</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Open entry for new health plans</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Open enrolment and frequency</td>
<td>Year</td>
<td>Year</td>
<td>Quarter</td>
<td>Half Year</td>
<td>Year</td>
</tr>
<tr>
<td>Is long-term care included</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Mandatory or voluntary membership</td>
<td>Mandatory</td>
<td>Mandatory</td>
<td>Mandatory</td>
<td>Mandatory</td>
<td>Voluntary</td>
</tr>
</tbody>
</table>
UK Mixed Economy of Care
Risk Equalisation - Ireland

Based on intergenerational solidarity, whereby the young subsidise the old by paying the same premium rates.

1. **Community Rating**: health insurers charge same price for the same level of cover regardless of age/gender/health.

2. **Open Enrolment**: all applicants for private health insurance must be accepted by a health insurer.

3. **Lifetime Cover**: all consumers are guaranteed the right to renew their policies, irrespective of claims history.

4. **Minimum Benefits**: health insurers must cover a particular set of treatments and procedures and cover all public hospitals.

5. **Risk Equalisation**: aims to neutralise differences in health insurers’ costs due to risk profile variations and results in cash transfers from the lower to the higher risk profiles.
Risk Equalisation - The Netherlands
Risk Equalisation (potential) – South Africa
Creating Value Innovation

Value innovation is created where a company's actions have a positive impact on both its cost structure and its perceived value to its customers. Cost savings are made by eliminating or reducing the factors on which an industry competes. Customer value is improved by raising and creating elements that the industry has not previously offered. Over time, costs are reduced further due to the economies of scale created by additional volumes of business.
Value Innovation: The Four Actions Framework

Reduce
Which factors should be reduced well below the industry's standard?

Eliminate
Which of the factors that the industry takes for granted should be eliminated?

Create
Which factors should be created that the industry has never offered?

Raise
Which factors should be raised well above the industry's standard?
# Blue Ocean Strategy: Principles

## The Six Principles of Blue Ocean Strategy

### Formulation principles

1. Reconstruct market boundaries
2. Focus on the big picture, not the numbers
3. Reach beyond existing demand
4. Get the strategic sequence right

### Execution principles

5. Overcome key organisational hurdles
6. Build execution into strategy

### Risk Factor each principle attenuates

<table>
<thead>
<tr>
<th>Principle</th>
<th>Risk Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reconstruct market boundaries</td>
<td>↓ Search risk</td>
</tr>
<tr>
<td>2. Focus on the big picture, not the numbers</td>
<td>↓ Planning risk</td>
</tr>
<tr>
<td>3. Reach beyond existing demand</td>
<td>↓ Scale risk</td>
</tr>
<tr>
<td>4. Get the strategic sequence right</td>
<td>↓ Business model risk</td>
</tr>
<tr>
<td>5. Overcome key organisational hurdles</td>
<td>↓ Organisational risk</td>
</tr>
<tr>
<td>6. Build execution into strategy</td>
<td>↓ Management risk</td>
</tr>
</tbody>
</table>
Four actions framework – Private Healthcare Insurance

**Reduce**
- Product range
- Healthcare cash benefits
- Prices (relative to market)
- Cross subsidies
- Long term benefit guarantees

**Eliminate**
- Unprofitable risk groups
- Inefficient business processes
- Low-value health cash benefits
- Obsolete products & services
- Obsolete computer systems

**Create**
- Web-based self service
- Top-end health cash plans
- Digital health capability
- Business process management
- Multi-lingual capability

**Raise**
- Treating customers fairly
- Chronic conditions cover
- Customer focus and intimacy
- Managed care network
- Customer utility & value

A New Value Curve
Profit Model for the Strategic Price

The Strategic Price

The Target Profit

The Target Cost

Streamlining and Cost Innovations

Partnering

Pricing Innovation
Organisational Hurdles to Strategy Execution

Cognitive Hurdle
An organisation wedded to the Status Quo

Resource Hurdle
Limited resources

Political Hurdle
Opposition from powerful vested interests

Motivational Hurdle
Unmotivated staff
How Fair Process Affects Peoples’ Attitudes and Behaviour

Strategy Formulation Process

Attitudes

Behaviour

Strategy Execution

Fair Process
Engagement Explanation Expectation Clarity

Trust & Commitment
"I feel that my opinion counts"

Voluntary Cooperation
"I will go beyond the call of duty"

Exceeds Expectations
Self initiated
Execution Consequences of the Presence and Absence of Fair Process in Strategy Making

- Fair Process
- Intellectual & Emotional Recognition
- Trust and Commitment
- Voluntary Cooperation in Strategy Execution

- Violation of Fair Process
- Intellectual & Emotional Indignation
- Distrust and Resentment
- Refusal to Execute Strategy
Virtual value chains use integrated information to help organisations perform physical value chain activities more efficiently and effectively.
Virtual Value Chains help companies create new markets by adding new value-adding steps to Physical Value Chain steps.
Physical value chain includes telemedicine as a peripheral support activity.

Virtual value chain can link telemedicine services directly to medical providers and drive care delivery through its own physical and virtual value chains.
Telemedicine - Virtual Value Chain activities

Telecommunications Provider

Telemedicine Service Provider
- Network Integrator
- Turn Key Solutions

Medical Service Provider
- Hospital Departments
- GPs & Specialists
- Scientific Centers

Final User

Citizen

Hardware & Software Provider
ERM for Risk and Opportunity Management

Accountability
- to the company
- to owners
- to regulators
- to legislators
- to other stakeholders

Policy Formulation
- creating the vision
- creating the mission
- creating values
- developing culture
- monitoring the environment

Supervisory Management
- oversight management
- monitoring budgetary control
- reviewing key business results
- ensuring business capability

Strategic Thinking
- positioning in the changing markets
- setting corporate direction
- reviewing and deciding key resources
- deciding the implementation process

Internal
External
Governance review cycle
Operations review cycle
Policy review cycle
Strategy review cycle
Risk and Opportunity Management
Short-term
Long-term

Strategy review cycle
The Enterprise Risk Management Framework

1. Corporate Governance
   (Board oversight)

2. Internal Control
   (sound system of internal control)

3. Implementation
   (appointment of external support)

4. Risk Management Processes
   (incremental phases of an iterative process)
   - Analysis
   - Risk Identification
   - Risk Assessment
   - Risk Evaluation
   - Risk Planning
   - Risk Management

5. Sources of Risk
   (internal to a business and emanating from the environment)
   - Internal Processes
   - Business Operating Environment
Stages in the Risk Management process

1. Analysis (A1)
2. Risk Identification (A2)
3. Risk Assessment (A3)
4. Risk Evaluation (A4)
5. Risk Planning (A5)
6. Risk Management (A6)
ERM – External and Internal Sources of Risk

External Sources of Risk
- Economic Risk
- Environment Risk
- Social Risk
- Market Risk
- Political Risk
- Legal Risk

Internal Sources of Risk
- Operational Risk
  - Financial Risk
  - Technological Risk
UK Public Sector - Corporate Governance Perspective

Technological and social hazards

Regulatory role

Stewardship role

Management role

Operational and policy risk

Natural hazards
UK Public Sector - Hierarchy of Risk

Strategic decisions

Decisions transferring strategy into action

Decisions required for implementation

Strategic

Programme

Project and operational

Uncertainties
UK Public Sector - The Risk Management Process

- Identifying risks
- Assessing risks
- Addressing risks
- Communication and learning
- Reviewing and reporting risks
Treating Customers Fairly – UK FSA perspective

Desired outcomes for the retail market:

- Customer needs understood
- Financially aware consumers
- Financially sound firms and economically sustainable distribution
- Customers treated fairly

- Customer Needs project
- National Financial Capability Strategy
- Basel
- Sandler simplified selling regime
- Depolarisation
- Mortgage & general insurance regulation
- EU Distance Marketing Directive
- Treating Customers Fairly
- Financial promotions
- Complaint handling
- Principles and Practices of Financial Management (PPFM)

Effective and proportionate regulation:
- ARROW
- Product Risk Framework

FSA and other initiatives underway to deliver desired outcomes
Conclusions

1. **Role** of health insurance and **customer access**
2. **Equitable** and **sustainable** health insurance offer
3. Involve providers to develop **integrated healthcare**
4. **Customer attitudes** and shift in public health policy
5. **Value innovation** and creation to identify proposition
6. **Virtual Value Chains** create new services and value
7. **ERM** needs to encompass risk-sharing enterprise
8. **TCF** important for new health insurance models