



Competition in Health Insurance

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Major Points

- Some increase in concentration due to withdrawal of weak competitors
- Hospital market power has grown more than insurer market power
- Key to performance by health insurers is direction from employers

Center for Studying Health System Change (HSC)

- Research on changes in the organization and delivery of care -- and their impact on people
 - Objective information for policy makers
 - Funded by The Robert Wood Johnson Foundation
- Emphasis on health care markets
- www.hschange.org

CTS Site Visits

- Insight into changing market trends
- Visit 12 randomly selected sites every two years
- Most recent visits in 2000-2001
- Conduct 50-90 interviews in each site, including a broad cross-section of local health system leaders
- “Triangulate” results

Framework for Analyzing Insurer Performance

- Responsibilities beyond managing risk
 - Negotiating prices with providers
 - Mechanisms to constrain utilization of services
 - Disease and case management
 - Information for enrollees
- One of two intermediaries between consumers and providers
 - Role of employer as imperfect agent of employees
 - Sharp swings in signals from employers
 - Dependent on labor markets and product markets
 - Response to backlash against managed care

Three Types of Insurance Markets Encountered in Site Visits (1)

- Type 1: BCBS-dominant markets
 - Situation in smaller markets
 - Greenville, SC, Lansing, MI, Little Rock, AR, Syracuse, NY
 - Account for roughly two-thirds of commercial market
 - Large market share is longstanding
 - Unsuccessful entry by national firms
 - Exits reflecting the underwriting cycle
 - "Public utility" type pressures on plans

Three Types of Insurance Markets Encountered in Site Visits (2)

- Type 2: market concentrated in 3-4 major plans
 - Orange County, CA, Boston, Seattle
 - Include longstanding major local plans
 - Two have separate BC and BS plans
 - Concentration is longstanding
- Type 3: fragmented markets
 - Phoenix, Miami, Northern New Jersey
 - Rapid population growth, national employers, absence of strong local plans
 - Increased concentration from mergers
 - National plans are important

Plan Relationships with Hospitals

- Exclusive contracts in some Type 1 markets
 - Contracts in decline now
- Many situations of “bilateral monopoly”
 - Employers critical in balance of power
- Some fragmented insurance markets face concentrated hospital markets

Factors Important to Plan/Hospital Negotiation

- Concentration
- Demand for broad networks
- Excess capacity
- Community pressures on dominant health plans
 - Protect ailing hospitals
 - Keep costs down
 - Discourage non-hospital specialty facilities

Developments on the Product Side

- Products with more patient cost sharing
 - Challenge to innovate in benefit designs
 - Consumer-directed plans
 - Tiered networks
 - Sophistication in cost sharing
- Customization of products
- Customer service
- Disease management and case management
- Additional threats of entry

Recent Merger Activity (1)

- Mostly limited to cross-market mergers
- Intertwined with BCBS conversions
- Stated reasons for mergers
 - Access to capital
 - Scale economies
 - Information technology
 - Marketing
 - Care management

Recent Merger Activity (2)

- Additional factors
 - Expand reach of strong managers
 - Enrich executives
- Implications for competition
 - More competitive behavior by Blues
 - Potential for Blues to draw more on inherent advantages

Factors Behind Premium Trends (1)

- Insurance underwriting cycle leading to wider margins
 - Continued exits from unprofitable markets
 - Pricing "discipline"
- Rising utilization in response to loosening of managed care
 - Reduced authorization requirements
 - Decline of provider capitation
 - Easier access to specialists

Factors Behind Premium Trends (2)

- Long-term trend of new technology increasing costs
- Rising prices to providers
 - Factors mentioned above
 - Nursing shortages
 - "Cost shifting" from Medicare and Medicaid
- Factors that can turn trend
 - Turn in underwriting cycle
 - Increased interest in cost containment by employers

Policy Implications (1)

- Performance of insurers involves more than margins
 - Willingness to innovate and cut costs
 - Signals from employers
- Provider market power has grown rapidly in recent years
 - Sometimes caused by mergers
 - Often caused by employer insistence on broad networks
 - Insurer market power can be counterweight

Policy Implications (2)

- Some markets appear to have only limited prospects for effective competition
 - Dominant BCBS plans
 - Dominant hospitals
 - Informal pressures already at work
 - What are the other alternatives?