

Healthcare - The customer agenda

Charting the future of the Irish market
for health insurance

January 1997

Prospectus

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The Authors have developed this document to provide information relating to key trends and issues on the subject matter covered. The information has been prepared and verified to the best of the Authors' ability. However, they do not accept responsibility for loss arising from decisions based upon the information, or liability for any errors, inaccuracies or omissions.

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Introductio

Objectives

This strategic study has two objectives:

- To identify the strategic issues facing private health financing providers in the Republic of Ireland and to highlight the learning points for the future
- To identify the most important trends driving change in international healthcare provision and to compare the structure of international markets with that in Ireland.

Scope

This report surveys the Irish health financing market in addition to five other markets consisting of Germany, the Netherlands, the UK, the USA and Australia. Each of these has been selected for the degree of product and service innovation evident in these markets or differing approaches to private health insurance provision.

Inevitably there are differences in the definitions of what constitutes private health insurance; the extent of specific data available and its comparability across individual markets. Therefore our findings and conclusions can only serve as indicators of the critical differences that exist in market structure.

The main emphasis of this research is on the private medical insurance (PMI) market as this is by far the largest. Critical illness, accident and health, and permanent health insurance are covered peripherally.

Research methodology

- Face-to-face and telephone interviews with existing and future providers of private healthcare and funding in Ireland, and other interested parties involved in the healthcare market.
- Published information on healthcare providers and the markets they operate in from a variety of printed and electronic sources.

Introduction

Prospectus

Prospectus is an independent Irish strategic consultancy, providing strategic consulting and research services across a range of industries, including the public sector, semi-state, utilities, high tech, manufacturing and financial services.

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- develop plans to exploit these opportunities
- put these plans into practice.

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- Trans-national analysis for different perspectives on innovation and best practice
- Creative thinking about future trends and boundaries

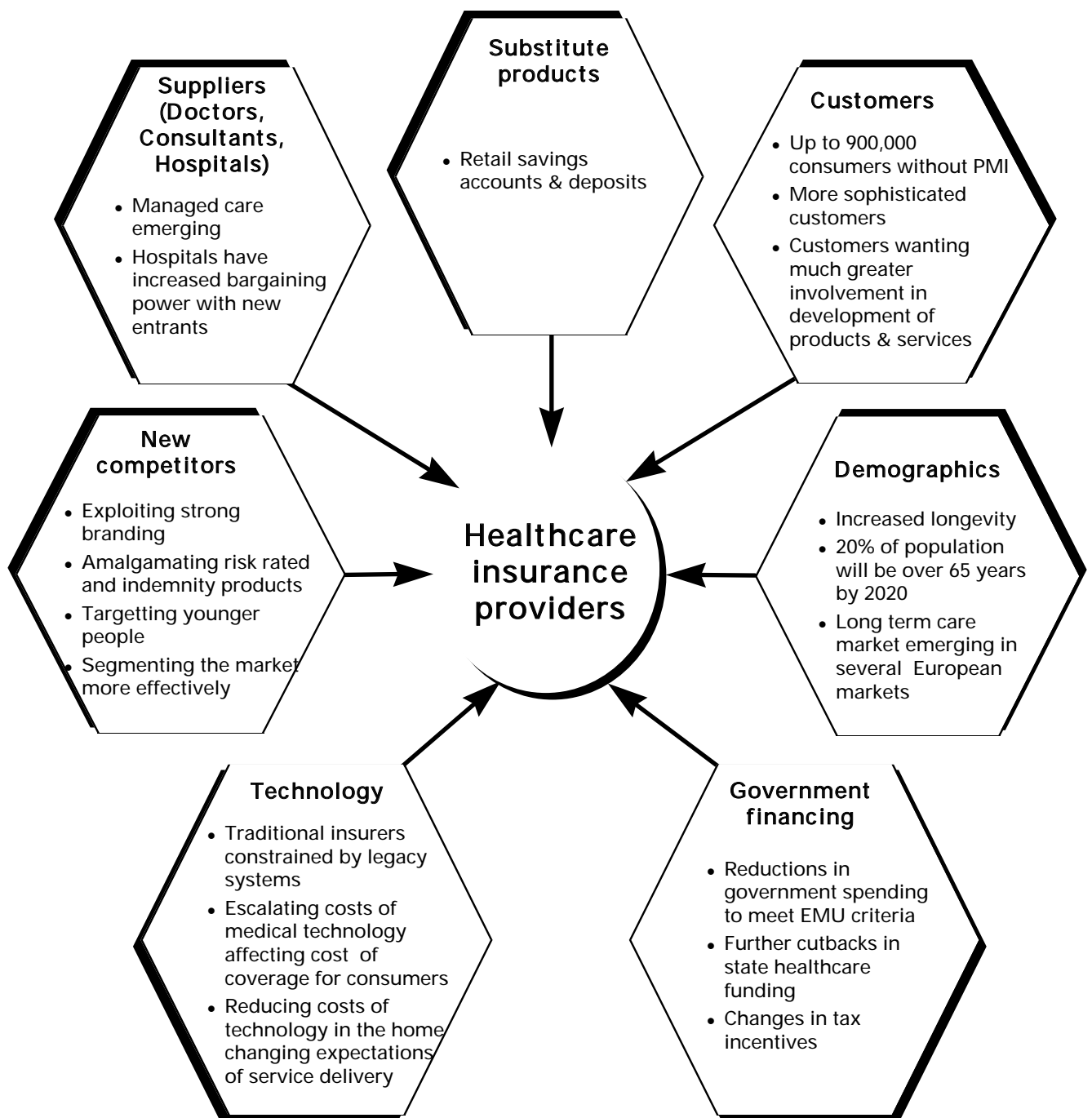
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E x e c u t i v e

Executive summary

Figure 1 Forces for change



Executive summary

Key findings and conclusions

Private healthcare represents a key growth opportunity for European insurers. In Ireland, however, the rate of growth will be heavily influenced by future changes in the status of community rating in the PMI market.

Customers

Customers are becoming increasingly sophisticated, demanding greater product choice and improved service levels throughout retail financial services. This has wide ranging implications for healthcare financing, requiring new product design, marketing and service innovation and much greater customer segmentation based on lifestyle analysis.

Demographics

Changes in the demographic mix in Irish society present opportunities and threats to the industry's profitability. More people will require private medical insurance to supplement State services, especially the elderly. However, the costs of medical treatment will continue to rise.

Government financing

Governments world-wide are reducing the extent of universal healthcare benefits and incentivising private provision.

However, experience in other markets where there has been a shift in funding from the State sector to the private sector has been that premium levels increase, resulting in younger lives dropping out of a privatised regime back into the State system. This phenomenon occurs in both community-rated and risk-rated regimes. Governments, such as Australia, have tried unsuccessfully to mitigate the effects of this through controlling price increases. The effects of this have been less significant in Ireland due to the low costs of obtaining PMI.

The Irish government remains firmly committed to the existing status quo as regards community rating. International experience, however, suggests that reliance on a community rated regime may not be sustainable in the long term. A hybrid form of community rating could emerge which includes some form of risk rating on the basis of age or lifestyle to prevent excessive cross subsidisation by younger lives. There is evidence of this trend in some US states.

Executive summary

Technology

Technology will present new opportunities to address the customer in product design and service delivery. These have not yet been fully exploited.

The costs of medical technology to support a higher standard of care will have a direct effect on the cost containment efforts of health financing providers and the State. Managed care is therefore likely to play a more important role in the future market.

Technology also offers providers opportunities to integrate customer information, strategically segment their existing customer franchise, and service their particular needs.

New competitors

The size and structure of the Irish market limits the potential business opportunity for new entrants. So far, BUPA is the only new entrant to have entered the market. The UK's other major health insurers, PPP and Norwich Union, recently announced that they had no plans to establish operations in Ireland. Until the current uncertainty surrounding which products and services can be sold in Ireland is clarified, no new entrants can be expected.

The Irish market for health insurance

The Irish market for health insurance

Figure 2 Growth of health insurance 1990 - 2000

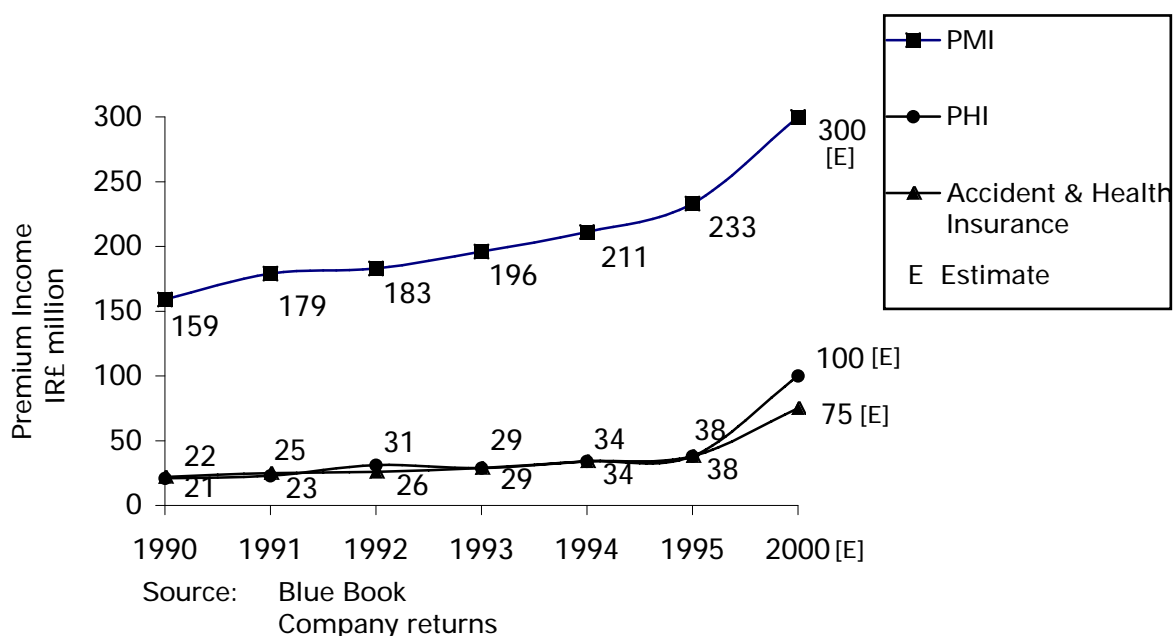
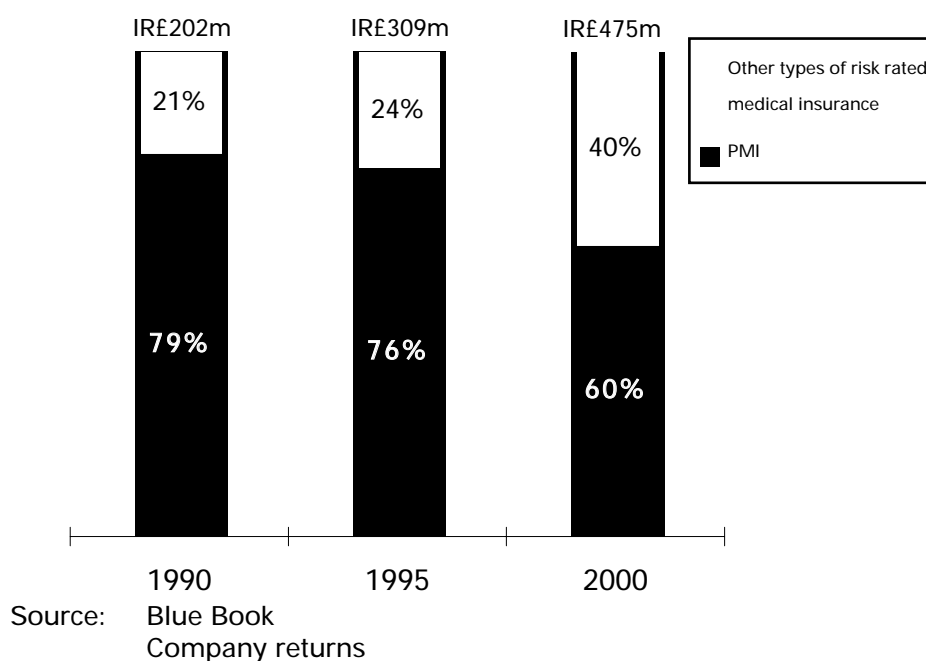


Figure 3 Market share of total health insurance market 1990 - 2000



The Irish market for health insurance

The Irish health insurance market has a strong product focus rather than a customer focus. Despite this, coverage of PMI is high judged by European standards.

- The Irish market for private health insurance is fragmented, spanning a variety of product markets that have been dictated by the needs of regulators and providers.
- As Figure 2 indicates, the largest segment of the market is private medical insurance (PMI) which operates in a regime with the unique characteristics of open enrolment, community rating and lifetime cover.
- Competitively priced health insurance has resulted in Ireland having one of the highest rates of PMI coverage in Europe, representing 39% of the population.
- Figure 3 indicates that future growth rates in the PMI market are likely to be modest in view of the existing level of coverage. Demand would have to be stimulated by reductions in state coverage and benefit entitlements and/or increased tax incentives for taking out private plans. Neither scenario is likely in the short to medium term. PHI and accident & health insurance will also experience modest increases.
- Those customers currently outside the PMI system still look to the State as the main guarantor for their healthcare needs. The numbers of those relying on the State could increase as a result of reductions on tax relief for contributions to PMI plans or increases in premium rates. This particularly affects young people.
- In the medium term, customers could increasingly switch between private providers, following the entry of BUPA, to exploit differences in price and service levels. Initially, some of BUPA's new business may result from the churning of the VHI customer base.
- The majority of the Irish public want to see the present status quo concerning the PMI regime to continue. This is directly related to peace of mind arising from lifetime cover regardless of age or health. However, younger customers, especially those under 30, may no longer accept the need to subsidise the premiums and benefits paid to older policyholders. There is already evidence of this phenomenon in Australia.

The Irish market for health insurance

Introducing some form of risk rating to incentivise customers may be necessary in the future.

A possible step to address the problems inherent in the existing system is to offer a basic entry level plan which is community rated. Beyond this commoditised cover, products could be offered with progressively increasing risk rated characteristics - age, income, health and lifestyle. This is the market opportunity BUPA are seeking to develop through offering hospital cash plans to improve the quality of hospital accommodation

A short term measure may be to divide the current universal community rating system into lifestyle categories. This is being proposed in Australia and would create four community rated categories covering single people, single parent families, two parent families and couples.

Pure risk rated products have had mixed success in the market

For those insurers offering risk rated products outside of PMI, profitability has been mixed in the 1990's, especially in the PHI market. This reflects the increasing costs of medical treatment, higher claims levels and also unrealistic rating on the part of some companies in the past to buy market share.

Customers will expect new and more flexible health products in the future.

- There will be an increasing need for new and redesigned products which will be both affordable and able to adapt to changing lifestyles. The challenge will be to offer a much broader, menu driven product, with a range of options for existing PMI policyholders to persuade them to buy more cover at marginal extra cost. This could extend into pensions, unit linked life cover, personal equity plans and bonds, and could be marketed as a flexible package.
- Innovation in service delivery will also be necessary. Ireland significantly lags behind other European markets in offering healthcare over the phone with the resulting lowering of costs to the customer.
- The growth in the elderly population will create a new market for an all-embracing old age product offering a package of life assurance, PMI and long term care. This could present an important growth opportunity.

The Irish market for health insurance

- Product and service innovation will be essential for the future success of the VHI. To achieve this, the VHI must develop a clear and differentiated corporate strategy which supports strongly branded products. The VHI may need to design complementary cash plans for different types of outpatient treatment and alternative medicine. The company should also look at offering community rated products tailored to the needs of executives and families, as seen in Australia. Recent press reports have speculated that the VHI may tie up with the UK's second largest health insurer, PPP, to offer new types of cover.
- The most important recent development has been the entry of BUPA. Central to its competitive positioning is the separation of community rated medical services from the discretionary convenience and comfort element of PMI schemes which are risk rated. The legality of BUPA's policies has now been called into question by the VHI.
- Some sources argue that BUPA and the VHI are not competing directly. While the customers perceive that BUPA and the VHI offer the same products, BUPA is offering a combination of risk rated and community rated products as opposed to the VHI's community rated offering. In the future, customer trust in BUPA's products could be affected as policyholders move between age bands and face higher premium charges for the same service.

BUPA is competing on price to quickly buy market share and take customers from the VHI. Its most basic plan, is 7% cheaper than the VHI's equivalent and provides extra cover.

BUPA is also adding value through covering all basic plan patients for heart surgery at no extra cost.

An international

An international perspective

An international

In this chapter we take an international perspective and compare different types of systems that operate in a number of

For comparative purposes, we have chosen to look at healthcare systems in Germany, the Netherlands, the UK, the USA and Australia. These systems can be broadly split into three types:

Social insurance system

Healthcare is mainly financed by compulsory payroll taxes (contributions) shared equally by employers and employees. The social insurance carriers are decentralised sickness funds. The hospital system is partly private/partly public. Germany, the Netherlands and Australia all use this system.

National health service

The entire population is given free access to State-owned medical institutions which are mainly funded out of general tax revenue. Both Ireland and the UK have a national health service.

Private insurance system

Healthcare is primarily funded by voluntary private health insurance contributions. Care is also mainly financed on a private basis. The US is the most obvious example of this.

An international perspective

Figure 4 Comparison of international healthcare markets

Market	Market structure & regulation	% population with private healthcare financing	Per capita spend on private health insurance	Learning points
Germany	<ul style="list-style-type: none"> • 29 players in PMI market • Top 3 have 42% market share • Minimum benefits compulsory • Public sector cover compulsory below certain income levels • Compulsory long term care • Govt. moving to reduce expenditure on long term care and push to private sector 	15%	£417	<ul style="list-style-type: none"> • Providers targeting high earners in 25-30 age group for full medical expenses • High marketing of supplementary policies • Long term care market most developed in Europe
Netherlands	<ul style="list-style-type: none"> • 30 players • Top 3 have 34% market share • Open enrolment • Prices set by State • Policy conditions standard • Cover compulsory below certain income levels • Managed care system • Long term care compulsory • Sickness fund and private insurers merging and co-operating 	30%	£238	<ul style="list-style-type: none"> • Emphasis on service levels • Co-operation between private and public sector providers to offer an integrated social and private employe benefits package to companies • Private companies use public companies as distribution channels

An international

The Australian healthcare experience is the most similar to Ireland in terms of market structure. Recent events in Australia aimed at reforming the community rating regime could act as a basis for future market reform in Ireland.

In most OECD countries current growth in healthcare spending is beginning to overtake the ability of the State alone to meet the full cost of healthcare provision, especially as ageing populations, rising unemployment and State pension benefits create an extra burden on welfare states.

Differences in national healthcare performance ultimately reflect diverse economic environments. Key differences include:

- Socio-political factors
- Medical infrastructures
- Payment systems
- Patient and provider attitudes

Reforms and government attitudes to healthcare, transformation and cost saving will differ across countries.

Germany

The German healthcare system provides compulsory cover for medical expenses for those earning less than a certain minimum income. This threshold is raised each year, making it difficult for private healthcare companies to widen their market. As a result, private providers are targeting the 25-30 age group to withdraw from the public funds and marketing supplementary policies as addendums to public cover e.g. dental and travel health.

Some private sector policy holders are finding it difficult to pay premiums so the government has forced all medical expenses insurers to offer policies at a standard rate. These policies offer a reduced level of services at a reduced rate.

The private long term care market is probably one of the most developed in Europe. Since January 1995, it has been obligatory for people to insure themselves separately with either the private or public sectors as the social security funds will no longer finance any of the costs.

An international perspective

Figure 5 Comparison of international healthcare markets

Market	Market structure & regulation	% population with private healthcare financing	Per capita spend on private health insurance	Learning points
UK	<ul style="list-style-type: none"> • 40 players • Top 3 have 50% market share • Quasi managed care system • PMI taken out to avoid waiting lists 	13%	£120	<ul style="list-style-type: none"> • Marketing budget policies to widen market • GPs act as gatekeepers to managed care system • Differentiating on service rather than product • Aggressive claims management
USA	<ul style="list-style-type: none"> • No national health insurance system • Restrictive managed care • Narrow channelling 	75%	£1,555	<ul style="list-style-type: none"> • Moving away from channelling to preferred providers • Move towards community rating in certain states

An international

Netherlands

The Dutch healthcare system is based around compulsory medical insurance. It works through a system of sickness funds for the two thirds of the population who are employees and whose income is less than a certain amount. Those not included make their own arrangements, either through private health insurance schemes or not at all.

Services provided under public healthcare are free of charge. The care providers are paid by the insurance companies. The service providers and the health insurance funds sign agreements in order to guarantee that the insured benefits are provided and that the service provider is reimbursed. This is a type of managed care system as seen in the USA, whereby the type of care, the content, the extent, and the tariffs are stipulated in the contract with the care providers.

Recent reforms in medical expenses financing allow public sector sickness funds and private healthcare insurers to co-operate and market an integrated social and private employee benefits package to companies.

UK

The National Health Service (NHS), financed by general taxation revenue, dominates healthcare provision in the UK. Similar to Ireland, those who take out private cover do not seek to replace public cover as they are still eligible and still pay the taxes that finance it. PMI is taken out largely for convenience.

The PMI market is a very concentrated market, in which BUPA occupied over a quarter of the total health insurance market in the UK in 1994. This was achieved through selling only PMI. In 1996, BUPA launched PMI, critical illness and long term care. There is nothing to prevent the same range of products being provided by BUPA and the VHI in the Irish market.

USA

In the USA, statutory health systems (Medicaid & Medicare) exist only for the poor and the elderly. Otherwise healthcare is provided or financed privately by Blue Cross / Blue Shield organisations, independent HMO's, self insurance schemes of major companies and commercial private health insurers. As a rule, health insurance is employer based, with the premium paid by the employer.

A restrictive managed care system is employed which results in channelling customers to specific providers, drugs, etc. There is a move towards preferred provider organisations, responding to customers who resent reduced patient choice. These organisations charge a

An international perspective

Figure 6 Comparison of international healthcare markets

Market	Market structure & regulation	% population with private healthcare financing	Per capita spend on private health insurance	Learning points
Australia	<ul style="list-style-type: none"> • Free public health sector • Government cost shifting into private funds • Community rating 	33%	N/A	<ul style="list-style-type: none"> • Government increasing tax incentives • Government considering reforms to the present system: <ul style="list-style-type: none"> • Introduction of lifetime community rating i.e. higher premiums for those waiting until late in life to insure • Introduction of no-claims bonuses • Greater use of managed care

An international

premium for additional facilities not covered by basic plans.

In view of the fact that 35 million people are not insured and the USA has by far the most expensive healthcare system, healthcare reform is one of the most pressing domestic issues.

Australia

Australia is one of the few overseas markets which applies community rating in private health insurance. However, the escalation of medical insurance costs has resulted in a sharp fall in the number of people covered from 64% in 1983 to 34% in 1996. This has had the effect of increasing the pressure on the State Medicare system.

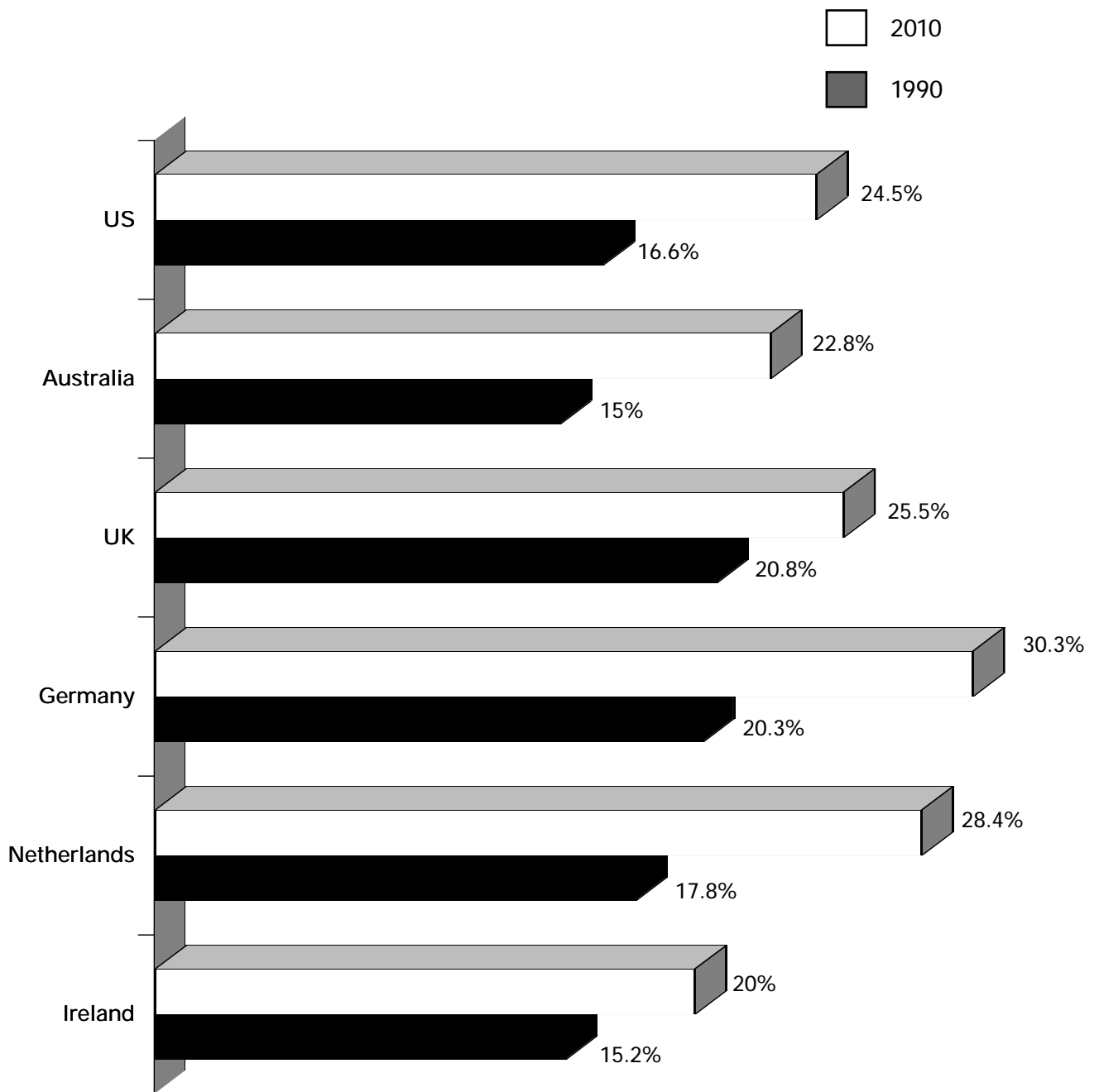
The recently elected Liberal government has sought to address some of these problems through setting up a Commission to review the existing private healthcare market. Its interim recommendations, published in December 1996, argue for a series of changes to the current community rating regime. These are especially relevant in considering the future options facing the Irish market.

- The introduction of four new community rating categories aimed at facilitating product innovation and making private health insurance more affordable. These categories cover single people, couples, single parent families and two parent families.
- The introduction of lifetime community rating which penalises those joining the private health insurance system late in life through higher premiums.
- The introduction of no claims bonuses for policyholders.
- The introduction of a deferment period before which no claims can be made on the policy. This aims to prevent people claiming from the insurer's funds without having made a sufficient level of premium contributions.
- A tax rebate of Aus\$450 for families already covered by private health insurance is to be introduced to encourage existing policyholders to stay in the system.

The competitive

The competitive challenge

Figure 7 Percentage of population over 60



Source: OECD
Datamonitor

The competitive

Introduction

Discussion and analysis of the health insurance regime in Ireland in the past has tended to be focused around structural issues concerning the future of community rating, open enrolment and lifetime cover or of related taxation and product development issues.

In this chapter our intention has been to shift the focus of discussion firmly towards the customer. Their perceptions about the need for private health cover and what types of services and providers are most appropriate to meet their needs is central to any understanding of the wider forces shaping the healthcare market of the future. Two of these forces are discussed in this chapter.

Firstly, changing demographics will result in a rise in the number of elderly people requiring acute healthcare. This is expensive to provide and due to increased longevity is required over a longer period post retirement.

Secondly, increased sophistication on the part of consumers buying health insurance cover. They are demanding more cover to meet their specific lifestyle requirements while also remaining cost competitive.

We then move on to review the range of customer needs of health financing providers. We identify the key issues and concerns which will influence customer needs of Irish health financing institutions in the future and, in broad terms, possible responses that providers of private healthcare should be considering as part of their own strategic planning process.

Each of these customer needs is addressed separately in this section, together with a discussion on possible responses by firms to achieve greater customer focus.

The competitive challenge

Demographics and its impact on future health financing

Populations are ageing and dependency ratios are increasing rapidly as a result of increased life expectancy and reduced birth rates.

Figure 7 highlights the extent of the problem in the future based on OECD and Datamonitor projections. In countries such as the Netherlands and Germany there will be a substantial rise in the elderly population over the next ten years.

- In Ireland, the State's commitment to maintaining free healthcare will come under increasing pressure. It is unlikely that universal State healthcare will be sustainable. There is already evidence of rationing to control costs in a number of international markets
- The government will begin to shift the burden of healthcare from public to private sector although continuing to apply some form of community rating regime
- Cost of private healthcare will rise, requiring the introduction of new community rating bands to limit the effect of premium increases or a reduction in existing policy coverage

As a result -

- Changing demographics could have a significant impact on the VHI in the long term as it already has a high proportion of elderly policyholders
- Greater use of managed care could be one option to control costs without recourse to premium increases. Therefore, the VHI could be at a competitive disadvantage to BUPA which has long-standing experience in managed care in the UK

The competitive

Customers are becoming more sophisticated and demanding when purchasing health financing services

Customer sophistication can be measured in terms of:

- Awareness of competing products and services
- Greater price sensitivity
- Greater service level expectations
- Increased demand for customised solutions to their lifestyle requirements which go beyond stand-alone product offerings

Opportunities to improve customer service

- Existing providers of health financing must broaden their product offering to address wider needs for life assurance, unit trusts, critical illness cover and long term care
- Service levels could be improved through providing 24 hour support lines, one step problem resolution and greater ease of access via the phone or internet into the future
- New products and services will have to be introduced to meet specific lifestyle demands and the needs of key market segments

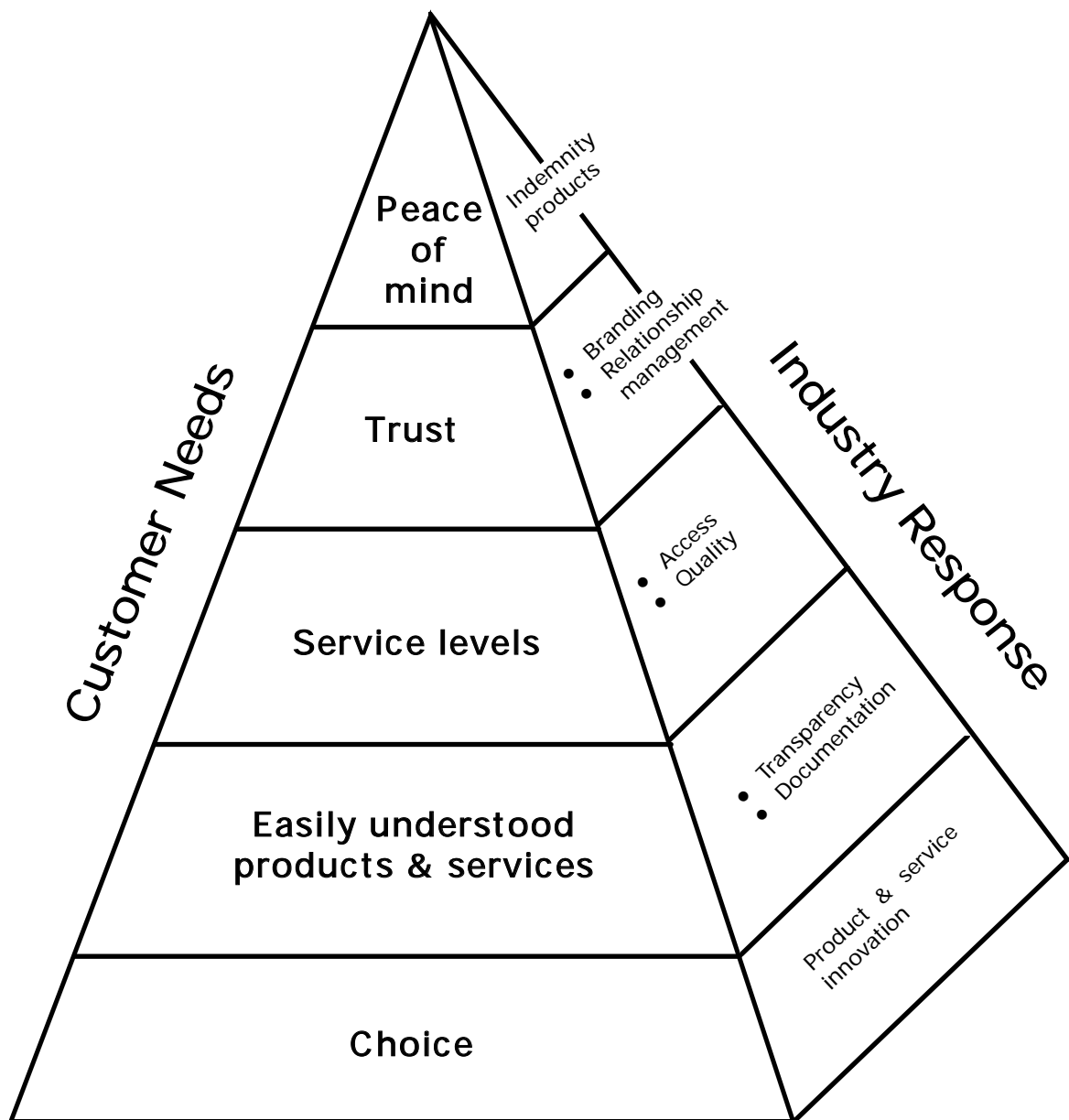
Industry issues

- The VHI is vulnerable to changes in customer demand for a wider product and service offering. It has no experience in underwriting or in marketing risk rated products
- The level of staff training throughout the industry will have to be improved in order to provide a greater counselling/advice service to customers and to develop the professional skills to sell a wider range of products

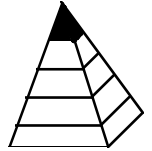
The following pages indicate key customer needs and potential industry responses.

The competitive challenge

Figure 8 Customer needs and how the industry can meet them



The competitive



Peace of mind

- Peace of mind plays a central role in determining customer needs of health financing providers. Its importance will increase as the State cuts back on universal healthcare and people live longer post retirement, thereby placing greater demands on the public and private healthcare systems.
- Customers will continue to expect guarantees from the State to maintain the current community rating, lifetime cover and open enrolment regime.

Industry action points

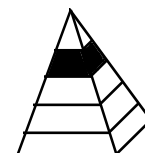
- The industry must continue to offer indemnity type products in the PMI market to enjoy customer confidence in the future.
- Emphasis should be placed on eliminating balanced billing as it is a source of irritation to many customers.

Issues

Any changes to the existing principles of the community rating regime could have a profound effect on the peace of mind of many policyholders, especially the elderly, who value the certainty this provides.

Therefore, there are considerable political risks in introducing risk rated products which would discriminate on the basis of age and state of health. Accordingly, politicians are highly unlikely to support changes to the present system.

The competitive challenge



Trust

As the range of providers, products and services increases, trust will emerge as an important factor in both influencing the uptake of services and determining which provider the customer will deal with.

Trust can be measured in the following terms

- Transparency of products
- Quality of advice
- Value for money
- Image and branding
- Provider's reputation
- Prompt payment of claims

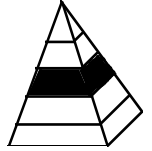
Industry action points

- Companies involved in selling health financing products must ensure that the policy's terms and conditions are simple and clear. Exemptions, changes and commissions should be explicitly stated as should the range of risks covered.
- The VHI will need to invest in significant relationship management and customer loyalty programmes if they are to retain existing customers.
- The VHI should exploit the goodwill and trust amongst customers to its advantage through proactive marketing to defend its position in the market.

Issues

Any future introduction of risk rated products, or sub division of the present community rating system into lifestyle categories as seen in Australia, will add to product complexity. This could result in customers understanding of product coverage and benefits diminishing. Therefore, product providers will need to provide professional advice and counselling to customers about what they are buying and what benefits they can expect.

The competitive



Service levels

Service levels have not come under as much scrutiny in the PMI market in the past as other insurance sectors. This will undoubtedly change with a new and experienced competitor like BUPA entering the market.

Customer perceptions of service quality will be influenced by the following factors:

- Extent and quality of advice given about different policy options to create a good fit between the customers lifestyle and benefit expectations.
- Availability and quality of complementary support services i.e. preventative care, counselling, helplines, etc.
- Quality and speed of treatment from diagnosis to surgery and recuperation.
- Proximity of the place of treatment
- Quality of hospital accommodation
- Extent and quality of post operative care in the home or out patient care
- Ease of access to information on services via call centres or internet
- Speed of claims settlement and elimination of balanced billing

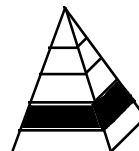
Industry action points

- Providers will need to provide differentiated service levels based on strategic customer segmentation. This will incentivise those customers making repeat purchases and distinguish between different lifestyles and income groups.
- Providers will need to proactively explore emerging multi-media for new ways of servicing and marketing to customers.

Issues

Significant investments will need to be made in technology and training to improve service levels while maintaining control over costs.

The competitive challenge



Easily understood products & services

In contrast to community rated PMI products which have been both simple and standardised, risk rated policies covering critical illness and PHI business have become over complex. As a result, customers have lacked a clear understanding of the extent of policy coverage and changes in relation to the benefits on offer.

Industry action points

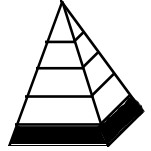
- Simplify policy terms and conditions in risk rated products.
- Formalise the present processes for joint design of product and service literature with industry stakeholders e.g. Irish Patients Association. This will help to improve the transparency of the products on offer.
- Introduce greater transparency regarding commission payments and charges for policy surrender and cancellation for risk rated contracts.
- Provide more customer information on what is the most appropriate cover to take out when faced with a choice of risk rated policy options i.e. accident and health, PHI and critical illness.

Issues

Combining community rated and risk rated plans, pioneered by BUPA, has been called into question as to its legality under the existing health insurance regime. It will probably require the separation of both types of cover to ensure that the consumer is fully aware of what benefits they are buying. If this does occur, it may make BUPA's cash plan liable for tax on the benefits, thereby diminishing its attractiveness.

Bundling both types of cover could lead to greater product complexity thereby making it more difficult for customers to grasp what services may be excluded from the policy's coverage.

The competitive



Choice

Companies must be actively engaged in predicting future customer needs to offer the product and service choices of the future. Customer segmentation and lifestyle analysis will play a crucial role in this.

Industry action points

Companies will need to become more innovative in their offerings. Indeed some companies are using product and service innovation to offer customised choices such as

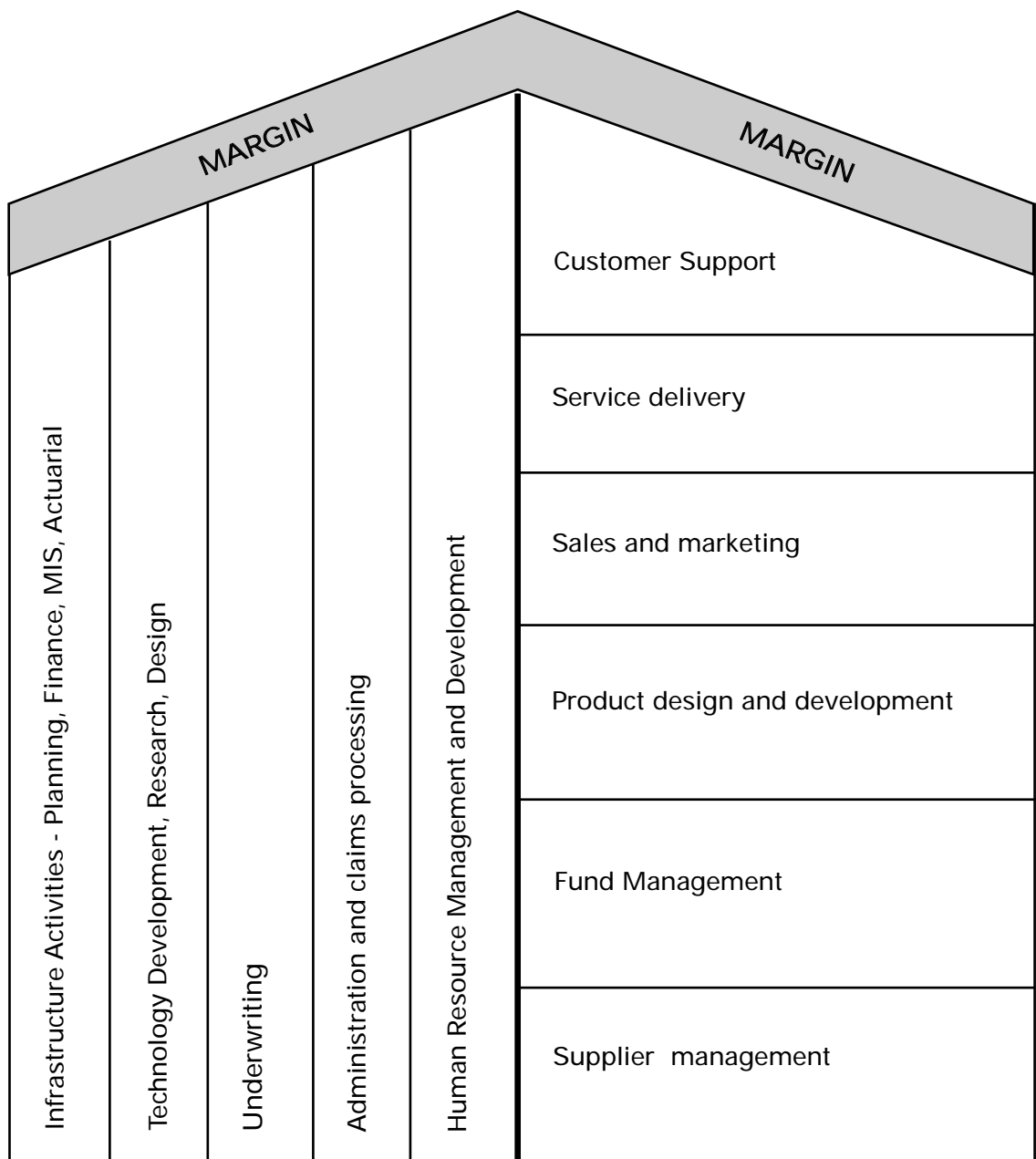
- Lifestyle products (e.g. PPP UK's Fast lane, aimed at active young people who don't get ill, but get injured)
- Alternative therapies (e.g. BUPA Ireland's product offerings)
- Women's plans (e.g. BUPA Ireland's product offerings)
- Health helplines (e.g. PPP UK's access 24 hour helpline)

Issues

The VHI's experience in product development to date does not put them in a strong position to compete with a company known for it's innovation or for multi-line providers in the future.

The competitive challenge

Figure 9 Value chain analysis of a typical health insurance provider of the future



The competitive

Possible responses

There are many possible responses to the competitive challenge facing providers of health insurance. The purpose of this section is to explore and develop possible responses from an industry perspective.

There are a series of strategic management tools which can be used by firms seeking to achieve greater customer focus in their business. One of these tools which has been used by financial services companies in the past has been value chain analysis.

Figure 9 gives our view of what the mix of support and customer facing activities of health insurance providers should be in the future. The benefits of applying value chain analysis is that it can highlight what current activities add value to the customer and indicates opportunities for moving support activities to the customer interface. The major change that will take place is the shifting of product design and development function, currently a back office activity, closer to the customer.

Based on our analysis of the value chain of a typical health insurance provider in Figure 9, we believe that success in future will hinge on industry players shifting from services which address the customer in terms of product solutions to broader needs in terms of healthcare counselling and preventative measures. As customer needs are becoming increasingly diverse and sophisticated, there will need to be much greater collaboration across all activities in the business to meet them.

Companies will need to break down their organisation into specific activities in order to identify new sources of cost and differentiation advantages which directly benefit the customer. We have highlighted two of these which will play a crucial part in creating added value to customers (customer support and product design & development). These are discussed on the following pages.

The competitive challenge

Figure 10 Possible segmentation criteria

Psychographics - Empty nesters - Influencers
Income bands (used in UK)
Waiting lists (used in Italy)
Surgical procedures (used in Norway)
Lifestyle
Distribution channel

The competitive

We have outlined below some of the customer support and product design opportunities which may provide greater added value to customers

Customer support

- Develop a customer support strategy
- Provide platforms/mechanisms for communications between customers and providers e.g. patient provider forum to advise on new products and service delivery and pricing options
- Gather information on customer needs and lifestyles e.g. quality of hospital accommodation required, income levels
- Target and review activities which are not directly adding value to the customer

Product design & development

- Move product design and development from a support to a customer facing activity
- Conduct a lifestyle analysis e.g. launch new products for specific occupational groups, sports people, students
- Provide a wider range of product offerings e.g. more umbrella type packages combining protection and savings products which could be tax incentivised
- Exploit synergies between complementary risk and community rated products
- Greater involvement of stakeholders in design and development of products e.g. hospital patients
- Build feedback loop with customer support function

The competitive challenge

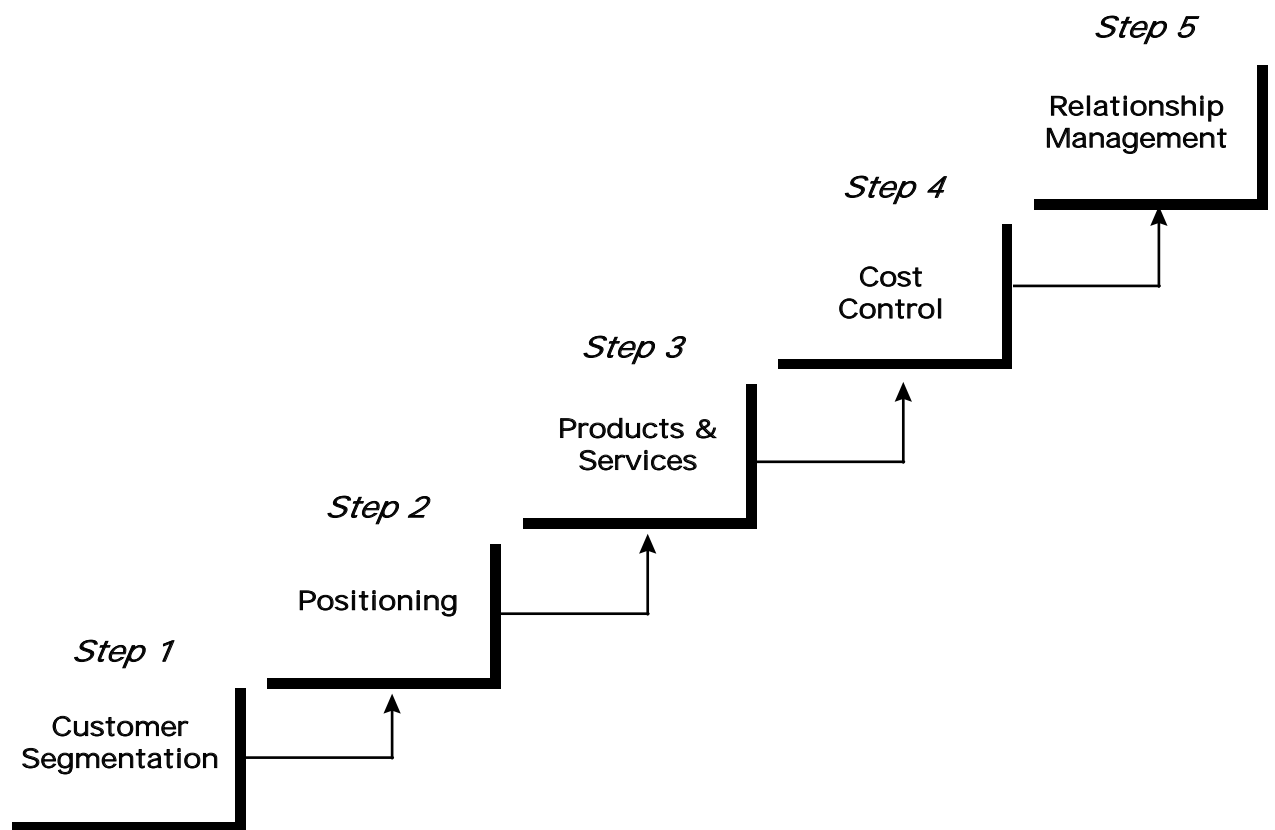
As customer needs become increasingly sophisticated and as companies try and differentiate on service levels, segmentation and relationship management will become increasingly important.

- Providers in the UK are already beginning to offer products and services to different segments of the market e.g. PPP Starter Plan, developed to attract people wanting the basic essentials at an affordable rate.
- BUPA UK are developing loyalty programmes aimed at key client segments, incorporating discounted products and bonus points.
- In order to successfully segment the customer base and develop ongoing relationships with customers, there will have to be greater investment in IT and marketing databases to collect, store and manipulate information on customers.
- Figure 10 highlights possible segmentation criteria which can be used by health insurance providers.

F u t u r e

F u t u r e

Figure 11 Five steps to success



Customer segmentation provides the greatest opportunity for profitable growth by healthcare financing organisations.

This chapter sets out what we believe to be the key areas of potential competitive advantage for the healthcare industry into the future

Customer segmentation

- Developing more sophisticated approaches to customer segmentation to understand needs and servicing implications. For instance, as people get older, their needs will become more complex and servicing will become more expensive
- Develop differentiated strategies to capitalise on the opportunities by segment e.g. the Under 30's. Understanding segment profitability will be an important input to deciding what level of cross subsidisation is feasible/desirable between different age groups
- Develop an understanding of costs incurred in servicing each segment of customers to identify opportunities for using technology or more proactive management of suppliers to reduce costs

Positioning

- Develop a corporate strategy and market positioning which will respond to future dynamics of the market such as managed care, product integration and customer churning between healthcare providers
- Companies must carry out a strategic audit of their activities (value chain analysis) to eliminate areas that do not add (or could add) value to the customers
- Look at other industry players to identify areas of competitive advantage and best practice particularly in the areas of customer service and supplier management
- Identify key sources of differentiation in positioning services at emerging customer markets such as the 'Over 65s'. These would involve product transparency and the provision of a total health financing plan covering medical treatment in hospital and at home at a competitive cost

F u t u r e

Products & services

- Develop strongly branded products and services for each customer segment e.g. women, young people, high net worth individuals, etc.
- Develop jointly branded products with other financial services providers e.g. life insurers, banks, etc.
- Provide menu options for customers to access a much wider range of benefits from basic healthcare provision to more advanced products
- Develop lifestyle/life cycle products especially for the growing elderly population
- Develop linkages between community and risk rated services to offer a wider range of cash benefits for hospital treatment
- Design simple healthcare financing products specifically for marketing via phone, internet, direct mail
- Involve end customers (patients) in the design of products and supporting marketing material

Cost control

- Agree prices with hospitals up front as part of a wider programme of managed care
- Contract with hospitals as preferred providers of care on the basis of cost effective care and quality
- Improved claims management through the introduction of new community rated PMI products and managed care programmes to control surgical, accommodation and prescription costs

Relationship management

- Develop a client relationship management strategy to understand changing customer expectations and anticipate future healthcare needs
- Develop relationship management programmes for specific customer segments i.e. magazines, mailings, discount schemes, etc.
- Develop customer retention and loyalty programmes for specific segments which are likely to be targeted by the competition

Conclusion

The future agenda of the health financing industry will, to a large extent, be determined by the changing needs of customers in the marketplace. Changes in lifestyles and the demographic mix within Irish society will present challenges and opportunities for providers. Those involved in the industry must not only respond to current events which are changing the marketplace but must predict future trends in order to remain competitive.

