

# The future of supplementary health insurance in Switzerland

CEO note

## Will the industry find a balance between the basic insurance model and the private supplementary insurance model?

January 2021

**The traditional product offerings of private health insurers are less and less in line with customer needs and the market, and it is hard to see any innovation in supplementary health insurance. Although health insurers are adapting their business model and range of products, the focus is mainly on basic insurance. Supplementary health insurance needs urgent reform to make it an appealing option in the long term along with a strategic focus and new, customer-centric product ideas based on the principles of private insurance.**

### **Private supplementary health insurance is becoming less and less appealing.**

Growth is stagnating, particularly in the traditionally successful area of supplementary hospital insurance. Although it was higher than property and casualty insurance (1.1 percent)<sup>1</sup> between 2009 and 2019, with an average of 1.4 percent gross premium growth<sup>2</sup> per year, a look at the numbers of insured persons over the same period (Figure 1) shows that it was largely driven by premium increases and new, flexible supplementary hospital insurance models, which are gaining ground at the expense of stagnating or even shrinking private and semi-private insurance. As a result, hospital insurance policies are being downgraded so insurers can offer more flexible coverage. During the same period, outpatient supplementary health insurance policies grew faster (an average of 2.7 percent per year<sup>3</sup>) and were therefore more popular than inpatient models. However, this cannot hide the fact that private supplementary health insurance is losing importance overall. The proportion of out-of-pocket expenses (beyond statutory co-payment) has increased sharply compared with expenses of supplementary health insurance for services outside basic insurance (an average annual growth rate of 3.3 percent between 2009 and 2018 for out-of-pocket expenses, 0.2 percent for private insurance<sup>4</sup>).

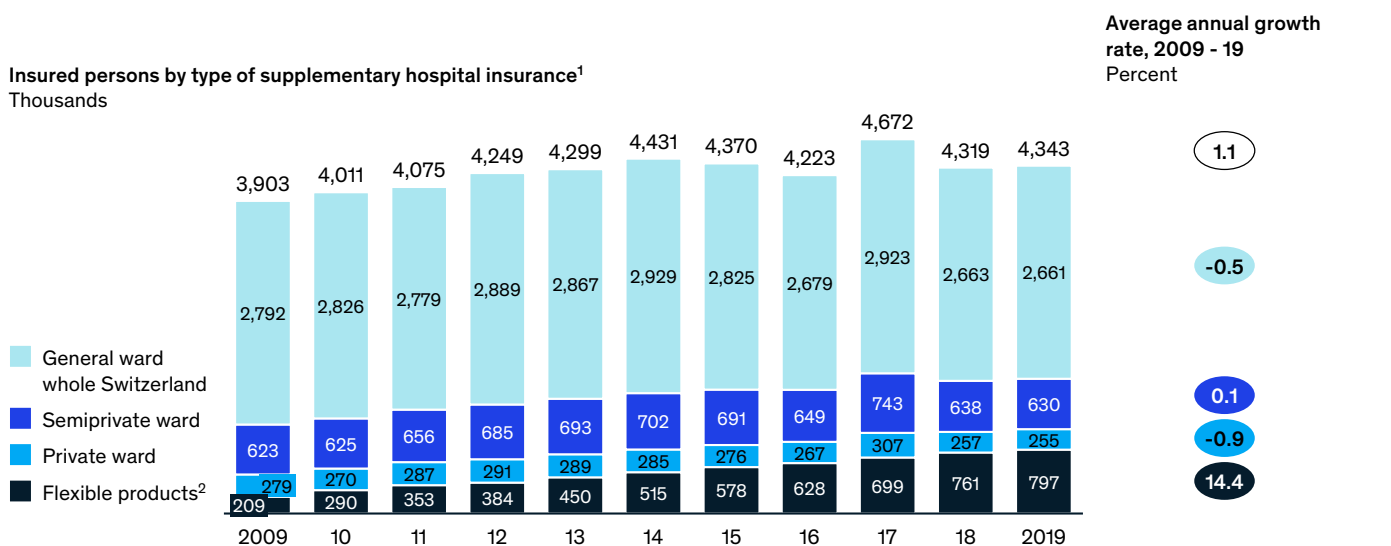
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<sup>1,3</sup> FINMA, Insurers' Report, gross premiums, 2009 to 2019

<sup>2</sup> McKinsey Global Insurance Pools, 2019 according to SIA projections

<sup>4</sup> Federal Statistical Office, costs of health care system by financing schemes

Figure 1



<sup>1</sup> Excluding supplementary health insurance with private insurers

<sup>2</sup> Including products with options on a case-by-case basis (e.g., choice of hospital ward)

Source: FOPH

### Greater attention to customer needs could improve growth and reduce competitive risks.

The products offered under medical insurance for private individuals are no longer up to date and cannot satisfy customer needs for affordable, real additional benefits. In addition, the construction of exclusively single-occupancy rooms in hospitals, the creeping assimilation of basic and supplementary insurance, and the current discussion concerning governance of chief physicians for supplementary insurance products are not conducive. There are four particularly relevant needs when it comes to product innovation:

*Real added value compared to basic insurance.* In the area of supplementary inpatient insurance in particular, basic insurance benefits are becoming increasingly similar to those offered by supplementary insurance. This is because public hospitals are continuing to improve their standards – financed by basic insurance – and some insurers are restricting the choice of doctors and hospitals included in supplementary insurance. In addition, more operations are now considered outpatient procedures and are therefore no longer covered by traditional hospital insurance. Some insurers are experimenting with new products for outpatient services, but the tariff protection under the Health Insurance Act makes it difficult to reimburse additional outpatient services via supplementary insurance policies. To date, outpatient coverage has not been adequately updated to focus on genuine additional benefits or higher service levels or to make use of cooperation between health insurers and service providers.

*Affordable premiums in old age.* Premiums for traditional supplementary hospital insurance rise substantially as people get older. The services are paid for by all insurers via effective age financing – this means that premiums paid by policyholders cover the risk of illness within their age group. For example, people with private supplementary hospital insurance at the age of 70 can expect a premium increase of up to 500 percent compared with what they paid at age 25 – something that policyholders are often not even aware of. Since people aged 55 and over are no longer accepted by most insurers for supplementary health insurance (among other reasons because reserves that have already been saved cannot be transferred in the event of a change), people are held hostage by this system: either the policyholders stay and pay the rising premiums or they cancel and lose their coverage.

*Access for broad customer segments.* In addition to older individuals, people with existing conditions are often rejected for supplementary insurance although they would benefit most from real risk insurance. This problem could be easily solved with adequate pricing and more precise risk categories; this would also allow insurers to attract larger customer segments.

*Flexible, simple contracts.* Insurers are only now testing flexible, personalized product ranges. This includes temporary supplementary insurance policies (for an additional charge), individual underwriting, and customized pricing, e.g., based on exercise data from health apps. The lack of flexibility is partly due to the unsystematic – and, for private insurance, inconceivable – structure of outpatient supplementary insurance products: these often do not cover clearly defined risks but offer various services, some of which are not linked to the

occurrence of a risk event (e.g., lack of fitness, use of alternative medicine). The lack of risk orientation leads to adverse selection and cross-subsidization, which prevents personalized pricing based on risk. The fact that there is still customer demand for these product combinations is probably due to the close relationship between supplementary insurance and basic insurance: instead of the insurance principle under private law, there is a concept of solidarity.

**Structural considerations prevent insurers from innovating in supplementary health insurance. Basing approaches on private insurance law could boost innovation.**

Innovation in the health insurance market has been limited to basic insurance. Various health insurers have added digitally supported health services to their portfolios, which they often make available to their customers free of charge. Some are also testing alternative insurance models that restrict customers' freedom of choice but make it easier for them to understand where they can obtain medical services. By contrast, supplementary insurance products often appear outdated. The strong cost pressure in basic health insurance and the associated political initiatives tie up management capacity and mean supplementary health insurance receives significantly less attention than basic health insurance in some areas – including the subsidization of basic health insurance from supplementary insurance. An example of this is sales, where high commissions for combined basic and supplementary insurance policies come from supplementary insurance. This structural neglect of supplementary health insurance can be explained in part by market makeup: the largest providers of supplementary health insurance are also the largest basic insurers in Switzerland, and AXA is the only private insurer to offer supplementary health insurance to private individuals without also offering basic insurance. Despite a volume of CHF 6.9 billion, supplementary health insurance has not yet been established as an independent area of private insurance.

The behavior of the regulatory authorities reinforces the private insurance aspect but hardly supports innovation. FINMA has supported actuarially sustainable financing methods for years through interventions and circulars, but with its preventive product supervision it has created a dense and complex regulatory network that makes product innovation in supplementary health insurance more difficult. At the same time, FINMA is increasingly demanding supplementary health insurers for stronger controlling over the billing of benefits for inpatient supplementary insurance in order to address the topic of “excessive” or non-transparent medical and hospital bills. This ties up additional management capacity at supplementary health insurers and pushes them even more into a “control function” towards service providers known from the basic insurance domain. This makes it difficult to collaborate on joint product innovations. Regulatory requirements are intended to protect policyholders, but also prevent innovation – even innovation that would benefit policyholders – and lead to insurers only gradually changing their products.

**By working with service providers, private health insurers could create a sustainable range of private medical services tailored to customer needs.**

In view of the obstacles and the increasing pressure on private medical service providers, two scenarios are possible: 1) the range of supplementary health insurance policies are upgraded in collaboration with private service providers to modernize them in the long term and tailor them to customer needs or 2) the position of supplementary health insurance will be weakened over time and reduced to a secondary role that does not offer any significant complement to basic insurance. In order to prevent the latter from happening, comprehensive modernization is essential.

Swiss health insurers need to first answer two basic questions:

- 1. Strategic importance of supplementary health insurance.** Is supplementary insurance a separate business area alongside basic insurance and one that will take on an important role in the future? Or is it purely an “add-on” to basic insurance? Even for health insurers with a large supplementary insurance portfolio, the number of basic insurance policyholders is often the key indicator of success and is prioritized over the profitability and added value of supplementary health insurance.
- 2. Requirements for modernizing the supplementary insurance offering.** If supplementary health insurance is of strategic importance, the next question is whether health insurers meet the requirements for modernizing their supplementary insurance offering. This includes the expertise and skills of the existing organization (e.g., of actuarial mathematics, insurance law, pricing, and product design), a suitable infrastructure (e.g., IT), and organizational goals geared to the success of the supplementary health insurance business.

Only if both questions are answered in the affirmative can the offering be modernized with regard to unmet customer needs, thus laying the foundations for the long-term success of supplementary health insurance. Three possible innovation approaches are briefly presented below:

*Controlled price trends and flexibility, including vesting.* The premiums for hospital insurance policies, which have risen sharply, are not favorable for the customer. In line with the principles of life insurance, the introduction of an individual savings component to premiums could provide relief. A savings component would be particularly attractive if it were accompanied by greater flexibility for policyholders and could, e.g., be transferred when switching insurers, similar to vested benefits in second-pillar pensions. Not only would this address the problem of skyrocketing premiums, but it would also make it more appealing for insurers to enroll older customers. This could give rise to a new market dynamic with a strengthened role for insurers – as well as for supplementary insurance.

*Focus on serious health risks.* The distinction between outpatient and inpatient as a prerequisite for supplementary insurance is becoming increasingly obsolete due to the politically enforced principle of “outpatient before inpatient.” Instead of supplementary hospital insurance, consideration should therefore be given to supplementary insurance focusing on serious health risks, which would finance genuine additional benefits if a risk event were to occur (e.g., free choice of doctor regardless of the type of service provided, access to state-of-the-art technology and off-label drugs, higher service levels).

*Cooperation with/partial integration of private service providers.* A particularly promising idea would be to develop and offer coverage for serious health risks together with private service providers – similar to insurer and service provider networks in the English-speaking world. Closer cooperation between service providers and insurers – including partial integration – could simplify joint cost management while offering additional benefits for customers – provided that conflicting objectives are taken into account.

If supplementary insurance is to be accorded strategic importance again, different stakeholder management will be needed. Some innovation and thinking will only succeed if various actors adapt their behavior – including regulators. On this point, too, health insurers should reflect on their role as trendsetters and guides in private health insurance in order to shape the market environment proactively in cooperation with the market players and supervisory bodies for the benefit of the insured.

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