

Mandatory health insurance

Evaluation of premium approval and supervision of health insurers

Key facts

As commissioned by the National Council Control Committee via the Finance Delegation, the Swiss Federal Audit Office (SFAO) examined how the Federal Office of Public Health (FOPH) supervises the provision of health insurance. The evaluation focused on the premium approval procedure for mandatory health insurance as a component of health insurer supervision.

At present, 81 Swiss health insurers operate in the area of social health insurance, whereby almost half of the Swiss population is insured with the three largest insurance groups (Helsana Group, CSS Holding and Groupe Mutuel). Just over a third of Switzerland's total healthcare costs of some CHF 60 billion are financed via the basic insurance. In 2009, premium income amounted to CHF 20.1 billion, and the cost contribution of those insured (annual franchise and deductible) amounted to CHF 3.4 billion.

Multifaceted supervisory and premium approval activities based on comprehensive data

When monitoring the provision of health insurance, a distinction has to be made between the general supervision of health insurance and the specifics of the premium approval procedure. The tasks for these missions are extensive. The FOPH employs around 20 FTEs (full-time equivalents) for this purpose. Supervision serves to check and ensure compliance with the financing principles in accordance with the Health Insurance Act, as well as health insurer solvency. The aim of premium approval is to ensure that the premiums are appropriate in relation to the costs.

Insurers may use social health insurance resources only for their given purpose. The FOPH checks compliance with this requirement by carrying out regular onsite checks at the insurers' premises and by analyses of balance sheets and profit and loss accounts targeting on the movement of capital. Moreover, this aspect is also examined by the health insurers' regular auditors. The previous procedure showed that basic insurance tended to be favoured when allocating operating costs between supplementary and basic insurance.

The supervision is backed up by extensive, high-quality data such as the trend of premiums and costs per insured person and per canton, as well as the insurers' accounting data. The current provisions allow health insurers a certain degree of flexibility for valuing their assets and thus for the creation of undisclosed reserves. This possibility particularly concerns the booking of all securities, which can currently be entered and carried at their acquisition value.

Premium approval process: an amicable solution is sought with the insurers

The FOPH's two-month premium approval process includes both a technical and material examination of the premiums submitted by health insurers for the following year. Decisions are made based on various insurer-specific criteria, taking into account benchmarks concerning the average for the other health insurers. The approval process is transparent and comprehensible. Premium adjustments are generally made in consultation with the health insurers. Decrees are avoided if possible.



In accordance with the Health Insurance Act, the cantons have the possibility of commenting on the premium levels planned for their inhabitants before the premiums are approved. The FOPH is generally aware of the points brought forward by the cantons, and insofar as it considers them relevant, they are factored into the premium approval decision. However, the FOPH focuses primarily on the insurers' solvency as a whole, and less so on cantonal considerations. Consequently, the direct impact of the cantons' position on the premium approval decision has to be seen as minor.

The plausibility of the health insurers' submissions can be assessed only to a limited extent

The premiums are assessed based on the insurers' submissions and/or budgets. The FOPH assesses whether the individual insurers' forecasts for the year ahead are comprehensible and plausible. Despite the multitude of data and assessments for all insurers, uncertainty remains as to whether the changes in the portfolio of policies or healthcare costs of individual insurers will develop as predicted. A budget is always based on assumptions, e.g. concerning the number of insured persons, portfolio movements within models, cost increases per benefit type, investment income, duty or risk compensation contributions, etc.

Individual insurers have delivered excessively high or low cost and premium forecasts for certain cantons for several years. Certainly, one reason lies in the fact that the individual insurers also have to factor the structure of their policy portfolio into their forecasts. For example, the costs per insured person can increase if many healthy people leave an insurer without there being a cost increase on the market as a whole. However, commercial considerations and other reasons that could explain forecasting errors were not examined in greater detail by the SFAO.

Moreover, it has to be taken into account that there is a gap of almost two years between the budgetary submission at the end of July and delivery of the insurers' final operating statements and that reality often turns out to be different from what was originally forecast. This was also shown in various analyses carried out by the SFAO, which illustrated ex-post the high degree of volatility between the predicted and actual business performance of the individual insurers. In retrospect, this means that the FOPH temporarily approved premiums that did not cover costs. This resulted in health insurers posting some losses (due to capital market trends and rising healthcare costs, for instance) and releasing reserves, which led to a need to make up ground with premium increases in subsequent years. Therefore, there are clearly limitations for the audit and assessment of premiums.

On the whole, the premium approval procedure has a minimal effect on the level of premiums and reserves

The impact of the interventions of the FOPH on the level of premiums and reserves within the scope of the premium approval procedure is minimal on the whole, but varies from one insurer to the next. The various analyses show that, from 2006 to 2008, the FOPH and insurers tended to lower the premiums within the scope of the premium approval process, i.e. between initial submission by the health insurers and approved premiums. The actual premium adjustments



turned out to be minor, however. The FOPH's efforts to achieve a cantonal harmonisation of reserves were evident particularly in the last two years. The actual impacts on the reserves were milder, though, or they even developed contrary to the predictions.

On the whole, the trends for benefit costs and premiums have been more or less parallel since the introduction of the Health Insurance Act, with certain differences possible on the cantonal level. Insurers can adjust premiums on a cantonal and regional basis in accordance with evident differences in costs, as well as grant premium reductions based on various criteria (e.g. age, franchise, choice of healthcare provider). Premium calculations are based on various factors and are determined differently depending on the insurer and canton. The cantonal and regional differences in premiums approved by the FOPH are comprehensible using the information available (e.g. budgets, annual accounts, cost forecasts). On a cautionary note, however, it should be questioned whether the FOPH could or should have intervened earlier or more decisively concerning the identification of systematic forecast deviations (particularly overly high healthcare cost increases) in the case of certain insurers.

The reserve provisions for health insurers are a static value

Basic insurance cover is financed according to the principle of apportionment of expenditure, and has to be self-supporting. Insurers must have a contingency reserve at all times to ensure long-term solvency. The legal provisions require a minimum contingency reserve as a percentage of the premiums payable for insurance and graduated according to the portfolio of policies. It has to be noted that there is no statutory basis regarding the health insurers' technical reserves per canton. When calculating premiums, health insurers take into account the different cantonal cost trends as well as the reserve ratio for the whole of Switzerland. "Cantonalisation" of reserves would probably result in the insurers setting different reserve ratios depending on the number of insured persons per canton. The reserve ratio would be higher in a canton with fewer insured persons than in a canton with many insured persons. The minimum percentage reserve rates in relation to the health insurers' premium volumes currently prescribed by law are purely statistical and are not based on actuarial risk data.

Supervision of health insurers should be more risk-oriented

Current supervision is not too risk-oriented. In order for the FOPH to be able to intervene in a timely manner, e.g. if an insurer can no longer perform federal obligations, the risks must be identified in good time. The introduction of a risk management could be helpful for this. The FOPH took a first step in this direction at the start of 2010 by launching a so-called intervention concept. The aim thereof is to identify health insurers experiencing financial difficulties at an early stage and to take action if necessary. Furthermore, it should be considered whether health insurers with higher risks should have to report on their business performance at specific intervals, thereby ensuring that corresponding measures could be proposed and introduced at an early stage.



A clear strategy is to be defined for supervision and premium approval

The SFAO has the following recommendations for the FOPH:

- Clearly define the objectives for the supervision of execution and premium approval for mandatory healthcare insurance, and devise a clear strategy which is to be published.
- Simplify the current, comprehensive premium approval procedure, and back up premium approval with a few clearly defined indicators in the future.
- Make the supervision concept for social health insurance more risk-oriented in the future, and also define minimum requirements for monitoring.
- As is already the case to a certain extent, publish supervision data and supplement it with comments, e.g. on extraordinary developments.

In addition, the SFAO supports the efforts of the FOPH to

- update the obligations, duties and responsibilities for health insurers' external auditors, and clearly regulate the boundary with the audit section;
- update the guidelines for accounting standards, including the chart of accounts, for health insurers (greater transparency, avoidance of hidden reserves, and improved comparability of annual financial statements);
- revise the assessment of minimum reserves, moving toward a risk-based approach, taking into account various aspects (provisions ratio, liquidity, etc.).

The FOPH welcomes the recommendations of the SFAO, and notes in its statement that initial measures have already been introduced. It is planning to rethink and strengthen the supervision of social health insurance. As part of this, requirements in the area of solvency, for example, should be established. Likewise, parameters should be defined for the approval of premiums in the future.

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