



Association
of European
Businesses

Employee Benefits.

VMI and Co-payment as
an efficient tool of
preventing excessive
prescriptions and cost
containment

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Страхование жизни

Allianz 

Growth of consumption becomes to drive the cost of medical insurance



— All clients — Russian Statistics Agency

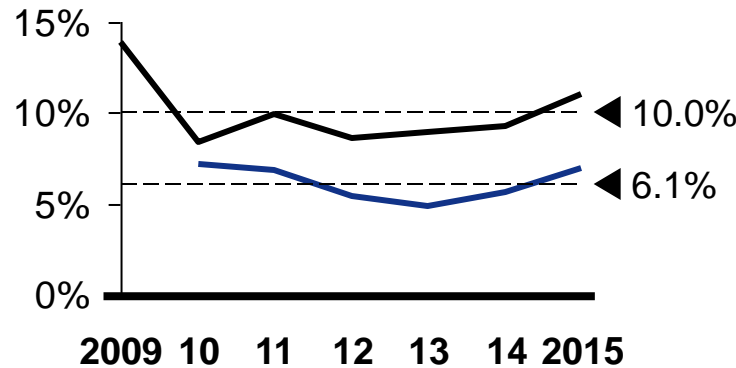
Issue

Illustration

Comments

Cost rise

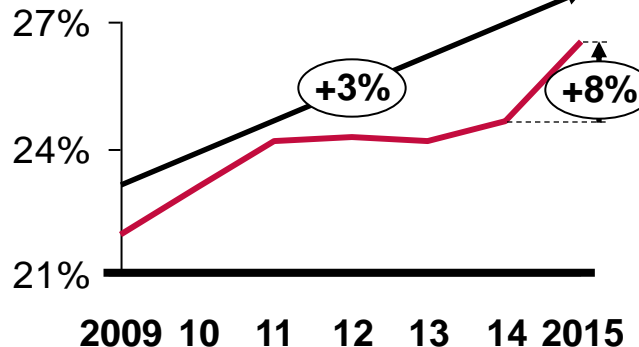
Healthcare costs rise by years, %



- ✓ Healthcare costs across country rise at 10% p.a.
- ✓ Rise is expected to accelerate to 16%** due to ruble weakening
- ✓ Allianz Life is better than the market (7.9%), but growth is still material.

Growth of consumption

Average consumption by years, %



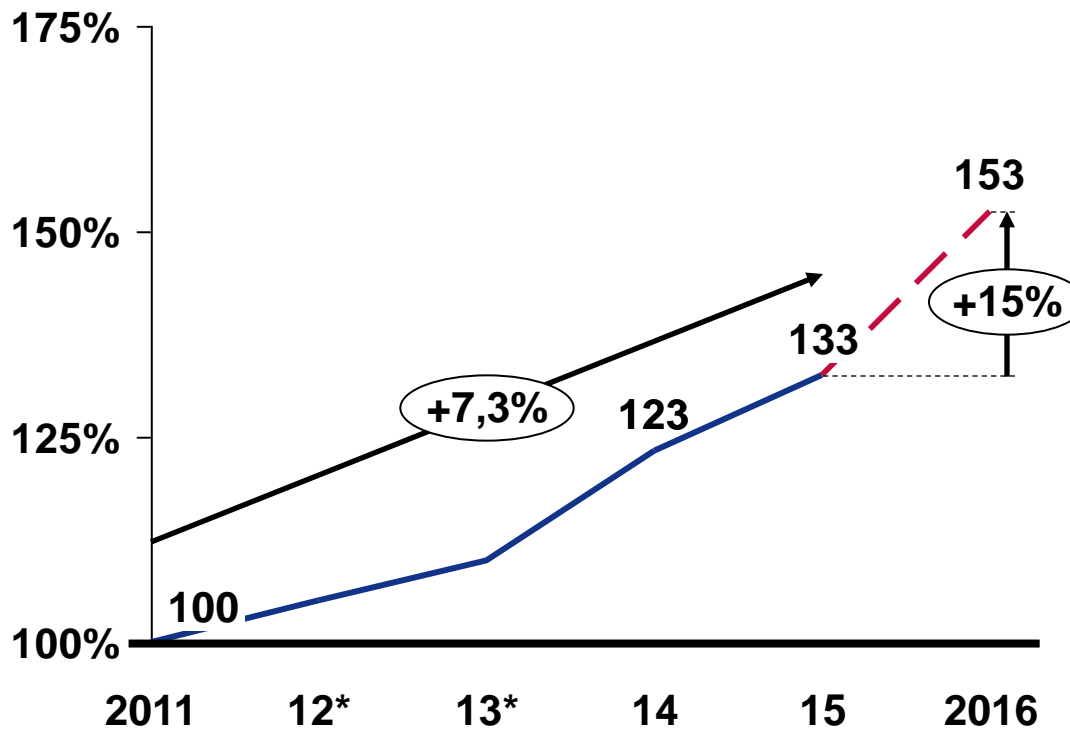
- ✓ Each year, consumption rates grow at 3% on average
- ✓ Crisis drives consumption
- ✓ **Consumption rates grew 8% in 2015**

**Marsh Medical Trends Around the World 2015, data on Russia

Up to 2015 the medical insurance cost grew at 7.3% p.a. which is huge, but now increase is to double



Budget index per employee since 2011, %

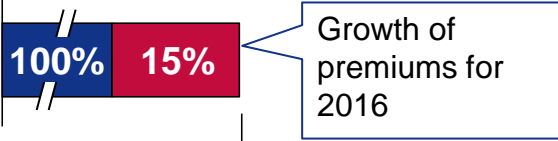


Comments

- ✓ Allianz clients' health insurance budgets grew at **7.3% p.a.** from 2011 to 2015
- ✓ Given accelerated growth of inflation, a **15% growth is needed for 2016** like for like
- ✓ Required growth is **inconsistent** with most Employee benefits budgets

Budget containment requires rationalized consumption, Allianz

but how?

Optimization measure	Impact on 2016	Horizon, years	Comments
Budget '16			
Change of insurer	15%	1	<ul style="list-style-type: none"> ✓ Overall growth of prices ✓ Unstable position of players outside TOP 5 limits the choice ✓ In fact, it postpones the problem for a year
Exclusion of clinics	10%	1-2	<ul style="list-style-type: none"> ✓ High de-concentration of payouts requires exclusion of more than 200 clinics ✓ Causes employee dissatisfaction and hence reinstatement of clinics
Reduction of service scope	5%	1-2	<ul style="list-style-type: none"> ✓ Savings of even 5% require drastic scope reduction ✓ Negatively perceived by employees
Fighting irrational consumption	30%	>3	<ul style="list-style-type: none"> ✓ Key problem – growth of consumption rates ✓ High savings potential ✓ But before there were no efficient mechanism allowing to realize rationalization potential

Irrational consumption as key price growth factor.

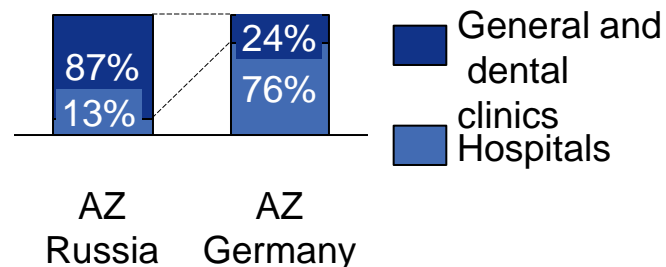


Why so:

This is quite logical behaviour of VMI market participants

- **Medical provider:** profit maximization without prejudice to health
- **Employee:** lack of motivation to consume rationally

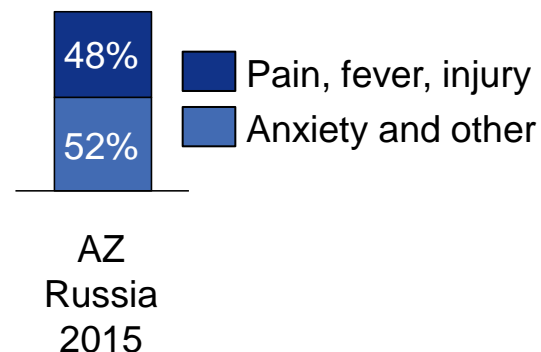
Consumption structure is reversed towards medical provider



Clear distinction between personal consumption (PC) structure and VMI

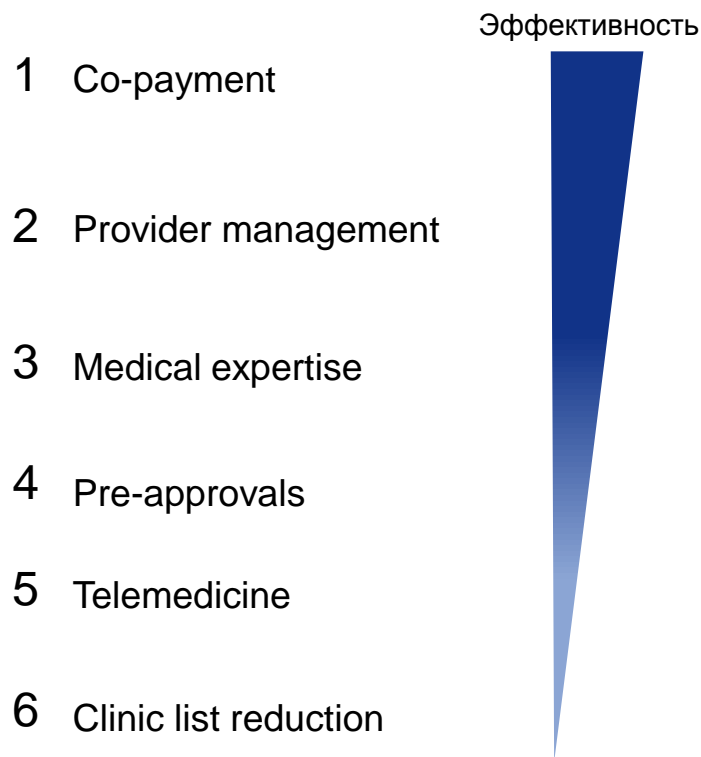
Service	PC	VMI
Acute condition	✓	✓
Preventive care	✓	✓
Non-acute condition	✗	✓
Excessive consumption	✗	✓

More than half services account for non-acute conditions

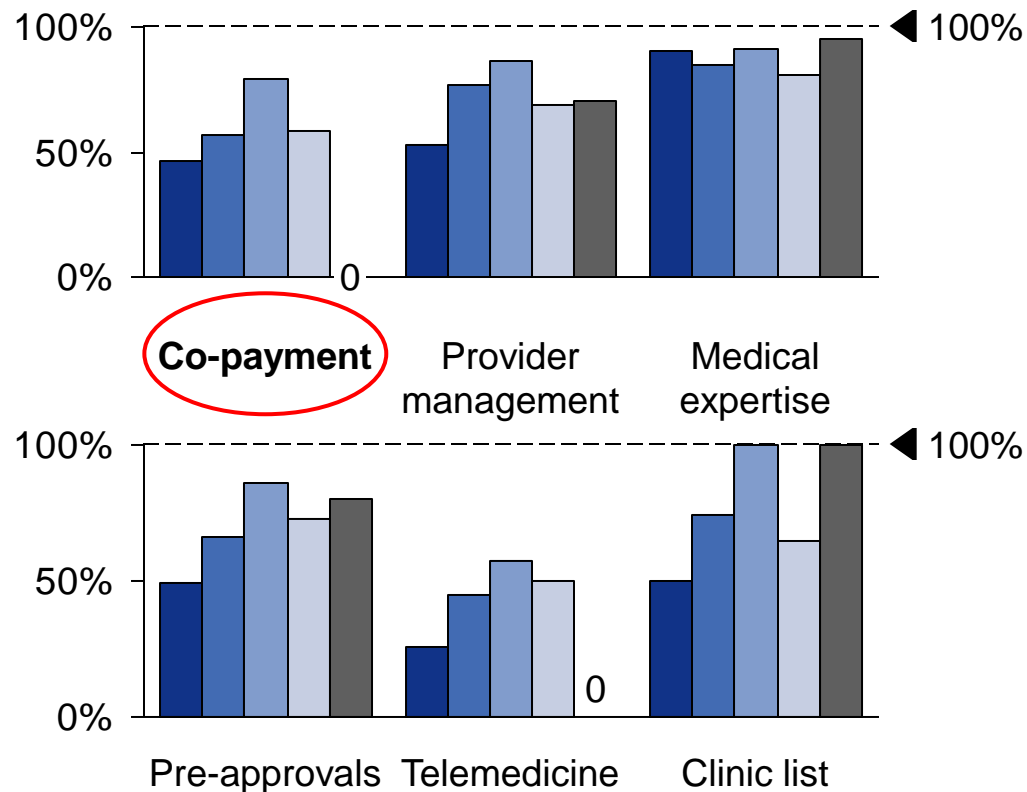


What is the international experience in controlling irrational consumption?

Cost containment tools*

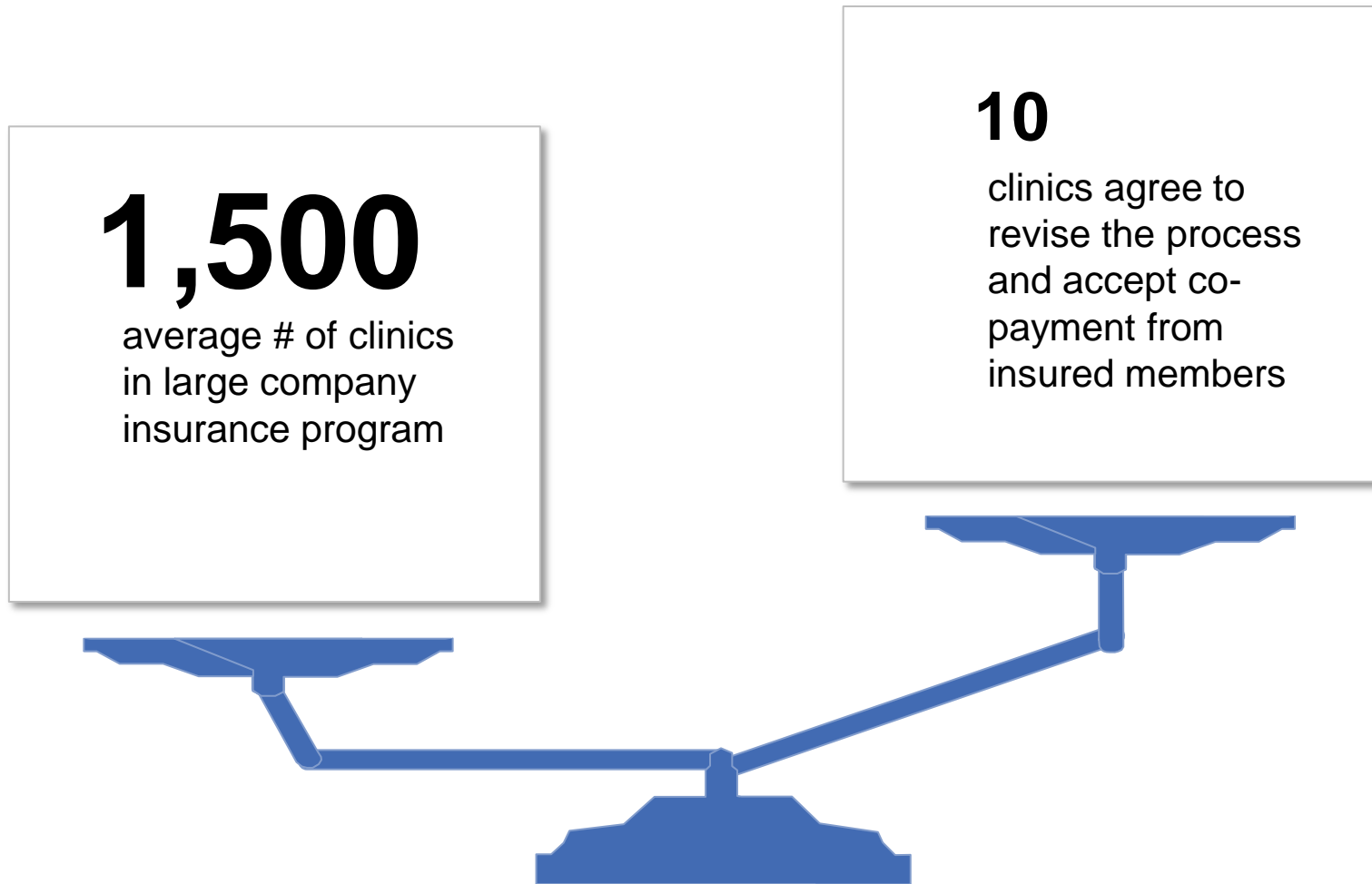


Tool usage by region

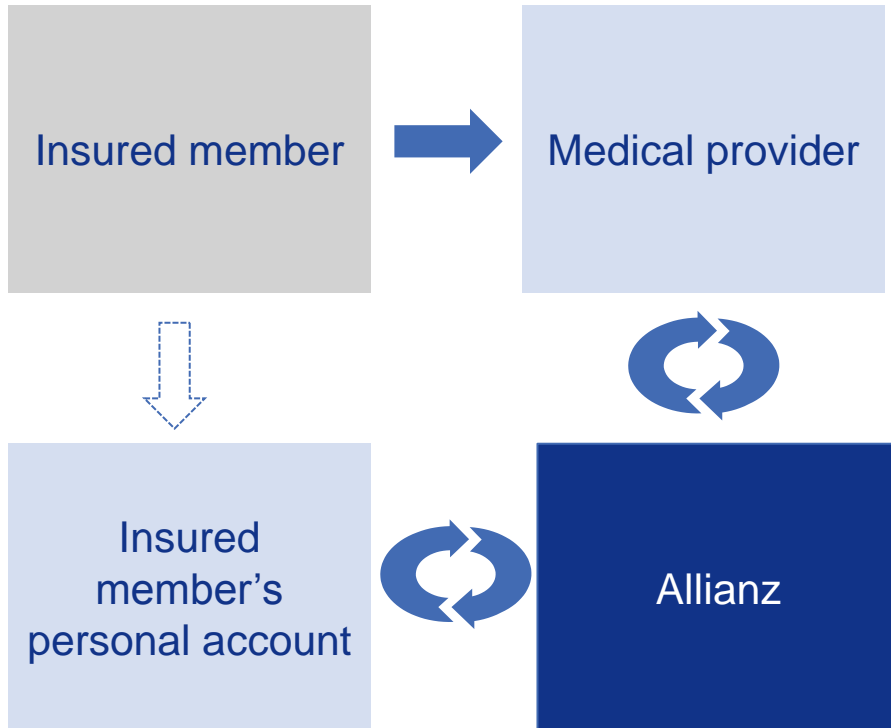


Copayment is the major cost containment tool worldwide, however not yet used in Russia

Direct settlement principle of medical plan does not allow to technically support copayment ?

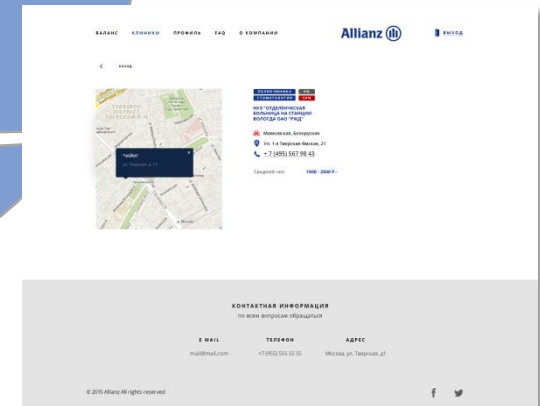
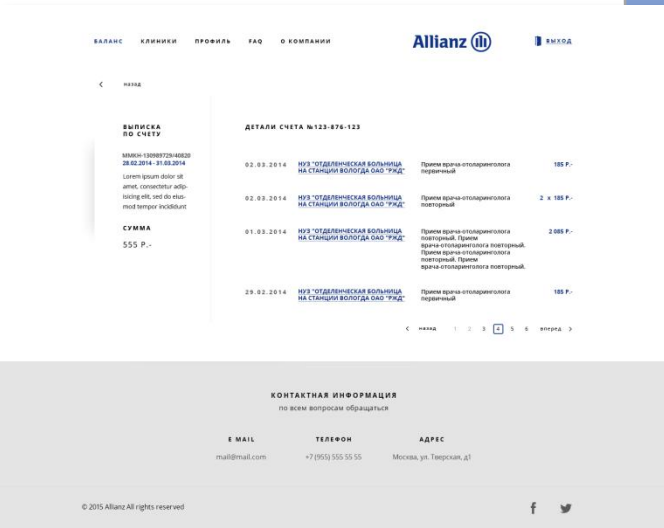
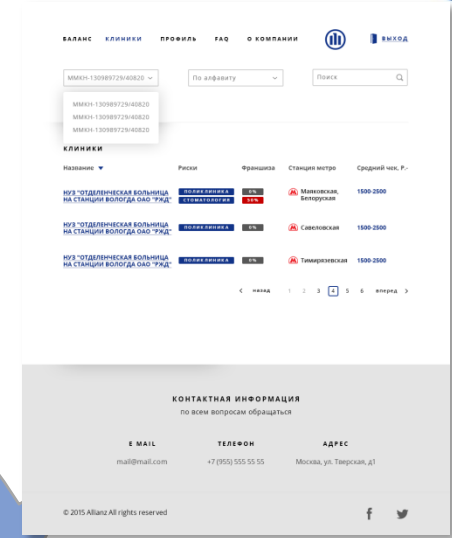
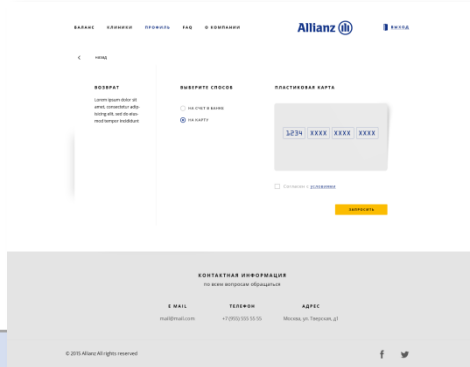
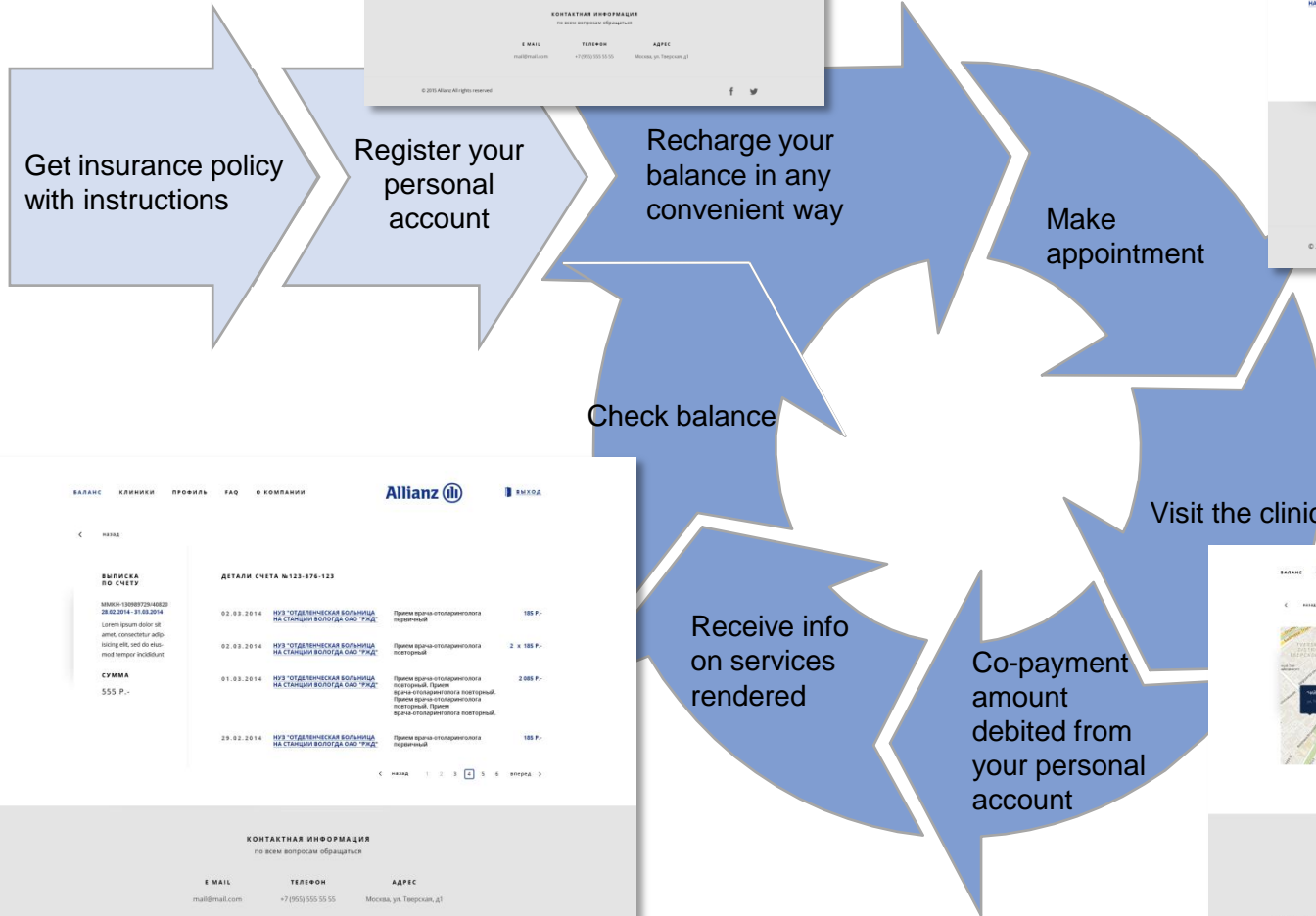


There is a workaround – copayment should be made between insurer and member

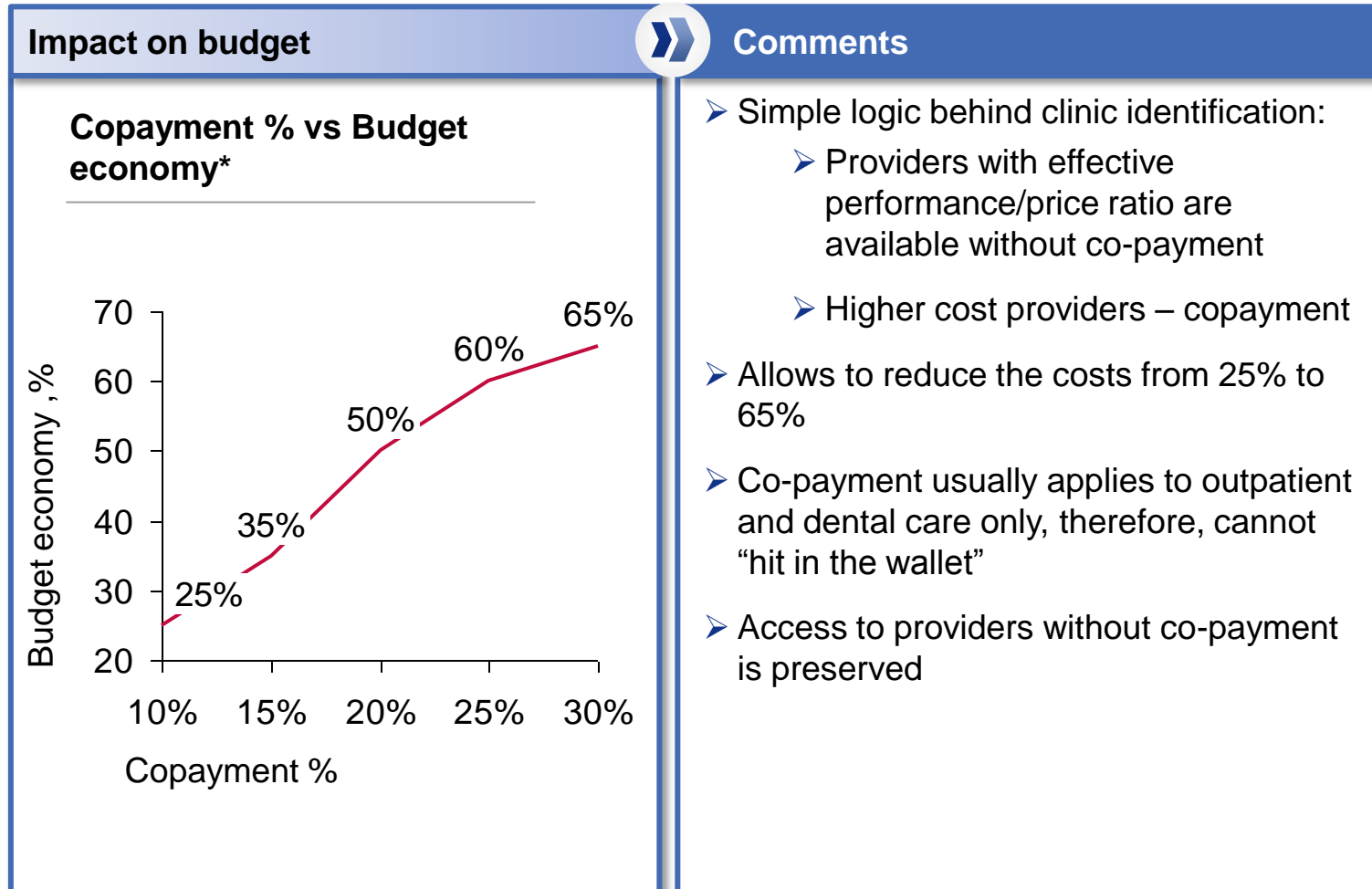


- **Insured member** receives medical care the same way he/she does today
- **Allianz** compensates **100%** to medical provider
- **Co-payment** is debited from one's **personal account** in a digital application

How the process looks like for an insured member?



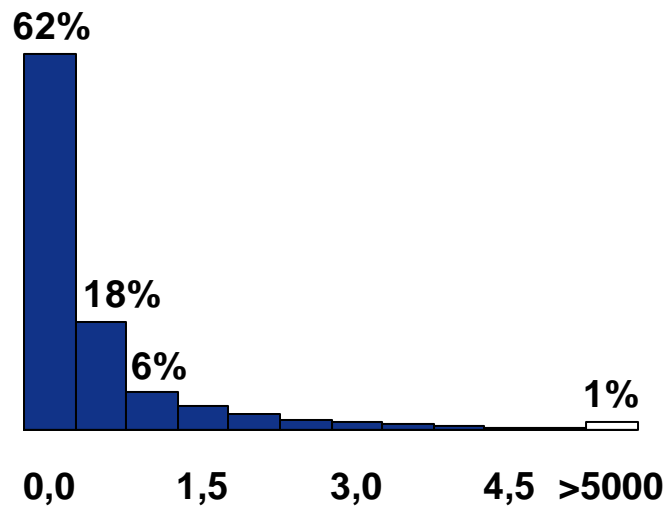
Copayment is to become the main cost level for medical insurance plan



* - Allianz data

Impact on employee

Redistribution of employees' expenses, '000 p.a.*



Core idea behind the offer

- 62% employees' expenses will equal to zero
- More than 90% employees will pay less than 1,500 p.a.
- Every employee's insurance program will still have clinics requiring no co-payment.

What's there for Employer?

- Co-payment makes insured members think about the need to go to the doctor: **less absenteeism**;
- Insured members start realizing **the cost of social benefits**, not only its relevance;
- Insured members **get access to clinics whatever they want**, only copayment level is different;
- Next year's budget growth becomes 100% controlled – **no effect of consumption growth (esp. during crisis)**

What's there for Insured Member?

- Opportunity to refer to **every clinic** – one's insurance policy becomes a discount card offering huge rebates;
- Better than co-financing: the insured member only **pays when needed**;