



CO-OP Point of View

How can CO-OPs gain market share?

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This second in a series of consumer operated and oriented plan (CO-OP) newsletters by Milliman will focus on the strategies that CO-OPs can take to gain market share and achieve scale that will help them become financially viable.

As new entrants in the health insurance market starting in 2014, CO-OPs will need to differentiate their products in order to gain market share. A focus on providing value to consumers (lower price, better quality, and/or better access) is needed to compete with existing health insurance carriers and gain market share. This focus may require developing new reimbursement methods, more efficient healthcare delivery models, or even alternative plan designs to reduce costs.

The December 31, 2010, Supplemental Health Exhibits reported by carriers offering coverage in the individual, small group, and large group market segments show that the underwriting gain (loss) is approximately (\$0.42), \$10.85, and \$5.56 – or (0.2%), 3.3%, and 1.7% as percentage of premium – respectively, in each of the market segments. The low profit margins imply that for CO-OPs to compete effectively, they need to reduce their internal cost drivers through low administrative costs and competitive discounts. Regardless of the approach that CO-OPs take to reduce cost structure, their strategies and offerings should be effective and credible to potential members in order to gain membership and achieve scale. We outline below some ideas for CO-OPs to consider.

- Information-driven market strategy
- Development of products that add value
- Appropriate pricing
- Creating a brand and communicating value
- Collaboration with other CO-OPs

Each of the above strategies is discussed briefly below.

Information-driven market strategy: Market strategy should be driven by a thorough knowledge of competitors and potential members.

A valuable analysis of competitors includes identifying health insurance carriers in the market where the CO-OP plans to operate, products offered, and financial information such as premiums, provider discounts, administrative expenses, claim costs, reinsurance costs, loss ratios, and market share. The best analysis will project competitors' future products and pricing in response to a changing environment.

Target customer analysis includes segmenting the potential health insurance buyers inside and outside the state health insurance exchange (individual, small group, and large group, or by age group or geography), identifying their needs, and using the right distribution channel for each market segment. Producer input and community focus groups can also help. This will aid the CO-OPs in focusing their resources to design products that will help them succeed.

Development of products that add value: The product design offered by CO-OPs will be influenced by various factors, such as target-market segments (individual, small group, and large group), regulatory aspects of the environment in which CO-OPs operate (exchange rules, state and federal regulations), products offered by competitors with significant market share (which may serve as a benchmark), and also by each CO-OP's relationship with its collaborators (providers, third-party administrators, and other vendors).

One way to attract membership is through innovative products. Although creativity in plan designs and provider-contracting arrangements to reduce costs is good, these innovations should be tailored around a strong consumer focus. The U.S. Department of Health and Human Services (HHS) has proposed rules that would require all health insurance carriers participating in exchanges to offer products that are easy for members to understand. CO-OPs should be careful in communicating to members about a product with features that are different from traditional products. The differences should be explained in an easy-to-understand manner, or else the CO-OP risks losing members who think that the plan is too complicated.

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Appropriate pricing: Price is one of the more dynamic marketing variables. After 2014, health insurance buyers will assess the price of a CO-OP's health insurance plan by evaluating it relative to other carrier plans that have the same actuarial value. One way CO-OPs might attempt to gain market share and thereby significant economies of scale is by using a high pricing loss ratio relative to its actual expenses. However, this strategy cannot be sustained for too long, as it might result in the CO-OP going insolvent or being unable to repay solvency loans. Because price sensitivity is high and costs for switching are low in the health insurance industry, implementing large increases later is also not feasible. CO-OPs should try to reduce their underlying administrative costs and also negotiate competitive discounts and commissions. This would help them lower their premiums without incurring losses from operations.

Creating a brand and communicating value: Brand can have a significant impact on a CO-OP's enrollment in addition to product and pricing. A CO-OP's name, logo, or product design should create a positive impact on a potential member's perception of the CO-OP, either in terms of the quality of products offered by the CO-OP or uniqueness in terms of plan design or other attributes that differentiate the CO-OP from other health insurance carriers. The nature of the CO-OP's communicated message should be focused on a sense of affiliation with the members and the community.

Collaboration with other CO-OPs: CO-OPs should consider establishing private purchasing councils to achieve economies of scale and provide better value to members. Collaboration may involve CO-OPs working together to create a brand, sharing a nationwide provider network that would provide competitive discounts for a CO-OP from an outside state, resulting in lower member cost share in terms of out-of-area costs for all CO-OP members, or negotiating with a common reinsurer for lower reinsurance premiums.

Conclusion

CO-OPs will have to gain enough market share during the initial years of operation to be financially viable. The main factors that will drive consumer choice include price, quality, access, and brand. CO-OPs should be strategic in their approaches between now and 2014 and also post-2014 to position themselves to gain their target market shares and have a competitive advantage. These strategies include pricing, innovation in products offered, collaborating, designing, and communicating value to potential health insurance buyers.

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