II THE EFFECTS OF ADDITIONAL CONTRIBUTIONS ON STATUTORY HEALTH INSURANCE CHOICES IN GERMANY

Abstract

Germany’s statutory health insurance (SHI) system has been radically changed in the year 2009 by the introduction of premium equality across all SHI funds. As of today, all funds charge the same price, which is 15.5% of each insurant’s gross income. The option to charge additional contributions as a flat, monthly per head amount in case funds cannot cover their costs has only scarcely been used so far. However, research predicts that this current state of premium equality is soon to be changed (PFISTER, 2009, EIBICH et al., 2011). Based on KICK and LITTICH (2011), I conduct a choice-based conjoint experiment and include the new pricing signal of additional contributions. I find that price is not the dominating criterion on the current market, but equally important to voluntary coverage options. Corporate reputation and a provider’s brand name lose importance, but are still a major quality signal within consumers’ choice decisions. The brand name TK (Technical Health Insurance Fund), as reputational leader, provides additional value for insurants. TK is able to charge up to €1.46 additional contributions from each insurant per month without falling behind their competitors. Compared to the general contribution rate of 15.5% of each insurant’s gross income, of course, €1.46 seems rather low. However, the statutory health insurance funds that already charged additional contributions from their members collected between €5 and €16 per month and head. Using this rational reveals that TK is able to charge close to 10% of the additional contribution range simply due to their reputational advantage. Thus, corporate reputation proves to enhance a fund’s bargaining position towards its potential insurants, as it allows charging and justifying price premiums. A second empirical study reveals that people lack knowledge about funds’ benefit and coverage portfolios and the SHI system in general. Insurants consistently overestimate funds with comparably higher corporate reputation regarding their benefit and coverage details of selected performance categories. Implications for practitioners and policy makers are discussed.
1 Motivation

The German statutory health insurance (SHI) market before the year 2009 has historically been highly price driven. Contribution rates were by far more important than any benefit, coverage, or service details. Research also confirms that the main reason for insurants to change or pick their SHI fund depended on the basic question whether equal healthcare coverage can be obtained for a better price (GREß et al., 2002, ZOK, 1999). As funds constantly tried to underprice each other, the market situation fostered a high tendency towards a positive risk selection behavior and was even labeled “manacled” or “constrained” competition (cf. BROWN and AMELUNG, 1999, p. 76, REINHARDT, 1999, p. 92). In other words, it was best for SHI companies to acquire only low risk assets, meaning healthy people that are not costly, to keep prices down (BODE, 2003, p. 439, PIMPERTZ, 2007, p. 24).

With the introduction of the Act to Strengthen Competition (Wettbewerbsstärkungsgesetz) in 2009, the German government tried to counteract the mainly price driven competition on the SHI market (MARQUIS et al., 2007, NOORDEWIER et al., 1989). By setting contribution rates equally to 15.5% of each insurant’s gross income, the reform’s intention was to create a SHI system that is especially differentiated by offered benefits. The reform aimed to create a new basis for competition in terms of quality rather than price on both the primary (i.e., SHI and insurants) as well as the secondary (i.e., SHI and health care providers) market (GERMAN BUNDESTAG, 2006). Since price as the major differentiation criterion broke away, SHI funds had to react promptly to counteract a potential loss of insurants. They quickly established a diverse benefit and service environment to retain their customer base.

KICK and LITTICH (2011) show that under the situation of premium equality, consumers indeed attach more importance to benefit and coverage details. The authors identified elective tariffs, bonus programs, complementary insurance, voluntary coverage, and customer services as the main drivers of consumer choice. They further state that voluntary coverage options are the most important criterion within consumers’ choice decisions with about 35%. Thus, the basic message on a market of premium equality comes back to the simple question where to get the best coverage options and benefits for the same price. The brand name, and subsequently a fund’s corporate reputation, ranked third with an importance score of about 15% following elective tariffs with approximately 20%. Brand and reputation can, therefore, be seen as one of the most important aspects for funds to differentiate on the current market and proved to be of