Cost Containment: Volatile, Misunderstood, No Easy Task

The International Travel Insurance Conference, held in Venice in November 2007, provided a major emphasis on the often misunderstood, volatile issue of cost containment. It is a subject that continues to provoke controversy and deserves our scrupulous attention. Following is a commentary on the subject based on a presentation made to the ITIC conference by ***Dr. Colin Plotkin, Medical Director of Colin Plotkin & Sons Consulting Inc.***

Handling medical travel insurance claims within the United States is no easy task for any claims examiner, assistance company, or insurance underwriter. Combine that with a growing need to reduce loss ratios and achieve efficient and sustainable cost management models, and you get a sub-industry with the potential to make or break an insurance product.

Insurance companies have long been at odds with medical service providers in the United States because of their misconception that hospitals and doctors are inflating charges to maximize their revenues. Conversely, medical providers are frustrated with out-of- country insurance payers because they feel such entities act in bad faith, seeking out ways to manipulate fees and to compensate them unfairly for services rendered.

Intermediaries such as PPOs or cost containment companies have sometimes muddied the waters even more. Since these entities are generally paid a fee based on savings obtained, they attempt to reduce the amounts medical providers ultimately receive for their services. It is not uncommon for an intermediary to make more from a transaction than the hospital that performed the care. Due to such activities, the communication and good faith gap between insurers and hospitals has widened to dangerous levels of unsustainability.

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Hospitals render services in good faith and expect to be reimbursed in such a way as to recover costs and make a profit. Due to the structure of the U.S healthcare model, with its different levels of payers (Medicare, Medicaid, and untold numbers of private insurance companies), hospitals have become vulnerable to the actions of some international payers who take unfair advantage of the domestic system.

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Significantly, international insurers are themselves not always to blame. By outsourcing their assistance and cost containment needs, insurers are reliant on intermediaries who clearly have their own priorities, a dynamic which sometimes creates antagonisms between insurance companies and medical providers.

Here is a classic example. An insurance verification clerk of ABC hospital in central Florida receives a Confirmation of Coverage letter from XYZ assistance company acting on behalf of an international insurer/underwriter. The letter, which avoids any form of guarantee, basically states that the provider will be reimbursed at a Medicare DRG rate or some similar amount.

The result is that the provider is bound to lose money on the service, but since the clerk at ABC hospital is exhilarated to have received a "confirmation of benefits", he gladly signs it, and sends it back to the assistance company. The unsuspecting clerk has thereby fulfilled his job, i.e., obtaining a commitment for payment of services for an insured patient.

Four months down the road, however, the hospital receives a cheque for $5,000 on a $100,000 bill, and the alarm bells start to ring. The head of patient accounts looks into the paltry settlement, becomes outraged at what he finds, and begins the process of legal action and collections, thereby generating suspicion for all future international admissions. The fallout of this is inescapable for the insurance company, the underwriter and ultimately the industry as a whole, leading perhaps to legal actions, collections, a legal defence of discounts already obtained, the rationalizing of future discounts from the aggrieved hospital, and a general deterioration of negotiating relationships. Another deleterious effect is that future patients may be requested to pay substantial deposits upfront, in order to receive care beyond the stabilization of their emergency.

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It may only be a matter of time before the reality of no discounts and zero good faith enters the realm of emergency medical travel insurance. Hospitals have no choice but to pursue actions that satisfy their own interests, and insurers must be wary of the long-term risks involved in seeking out unrealistic, unsustainable short term gains won at the expense of good provider relationships.