

Too Much Of A Good Thing Costs Too Much: Choice Modeling for Health Insurance Products

Case History

Category: Health Insurance

Methods: Choice Modeling, Simulation Modeling, Product Concept Testing

Summary

A large health insurer sought to increase profitability for a specified group insurance segment by reducing the number of insured health products and the overhead and low profit margins associated with them.



Strategic Issues

The company needed to thin its product offerings to reduce overhead costs while retaining its overall competitiveness in a marketplace that valued variety.

Research Objectives

The overall goal of the research was to provide a mechanism whereby product developers could test existing and potential product configurations based upon the product selection preferences of consumers. Resulting information was utilized to determine which products could be culled from the portfolio of products, which should remain, and whether any specific new products were required.

Research Design and Methods

Choice-based exercises were developed using 15 product attributes to configure a variety of PPO product concept statements. An online survey was conducted among 1,350 consumers selected from the carrier's member databases. External online consumer panels were used to recruit competitors' members to the survey. Choice modeling of the data was used to gain insight into the selection decisions consumers use when choosing health plans. The data was then used to develop a computer model that simulated product-selection preferences of consumers. This allowed the client's product developers and actuaries to estimate consumer interest in proposed product configurations.

Results

The insurer was able to reduce the number of specialized health plan offerings while documenting to employers that the "thinner" product portfolio actually met and even exceeded consumer expectations while holding down costs. This reduction of product offerings saved the company over \$1 million in administrative costs annually.