

INDIANAPOLIS BUSINESS JOURNAL

CENTRAL INDIANA'S BUSINESS AUTHORITY

VOL. 27 NO. 50 • FEBRUARY 12-18, 2007

Good legislation to promote good health

The newly elected and re-elected men and women of the Indiana General Assembly will debate and vote on many issues of importance during the 2007 session.

One legislative proposal upon which members of the General Assembly and governor should quickly reach consensus is the proposal put forth in House Bill 1160, authored by Rep. Craig Fry, D-Mishawaka, and Senate Bill 114, authored by Sen. Beverly Gard, R-Greenfield, that would change the costs of health insurance in Indiana, ideally for the better for employers, providers and patients.

In Indiana, nearly 60 percent of workers receive health care through their employers. Indiana employers in turn contract with insurers to mitigate the risks associated with providing health care coverage. Insurers negotiate the fees they will pay for the provision of health care services and procedures with doctors, nurses, hospitals and clinics.

Over the last few years, significant consolidation has occurred in the health insurance market, creating fewer, larger carriers that have significant market share in certain geographic locales. That dominant market share enables insurers to negotiate the lowest cost from health care providers and the highest premiums from employers.

Unfortunately, these market forces do



BRIAN WILLIAMS

Commentary

not always create a hospitable environment for the patient. Providers are grumpy because they believe their services are undervalued. Employers are irate because their health insurance premiums are on an escalator that apparently doesn't stop. Patients are disgruntled because they are unable to make purchasing decisions based on quality and customer service. This environment compromises the relationship between patient and provider and potentially leads to poor service or loss of coverage.

In health insurance in Indiana, the dominant provider is able to demand the lowest price, insist that this information be kept confidential, and sometimes even require the ability to review all competitors' prices.

The simplicity of House Bill 1160 and Senate Bill 114 is that they would prohibit any insurer or health maintenance organization from having these demands in its contracts with physicians, hospitals or clinics.

Like any business, doctors and hospitals have certain fixed costs. When one insurer, because of its market position, is able to demand prices that are 10-percent to 15-percent lower than any others, doctors and hospitals must increase costs to other insurers and employers to cover their fixed costs. Of course, health care providers are also able to eliminate services or cancel treatment upgrades to lower fixed costs.

Regardless, the result is the ability of large insurers to distort the market, either 1) making health care more expensive for every other insurer, and subsequently every

other employer and patient, or 2) forcing lower quality into the health care system, or both.

For employers and business owners, House Bill 1160 and Senate Bill 114 would restore competitive pressure to health insurance and force insurers to compete on quality and service. When the cost of service is significantly lower for one insurer than all others, higher operating costs and operational inefficiencies are hidden from consumers until they access the health care system.

If insurers were all able to contract at equal pricing, they would then be forced to compete on the basis of quality and service. This would prevent carriers from gaining a profit advantage through market share, using size as clout to extract lower pricing, even though all might price premiums at about the same amount. If all parties in the health care value chain could compete on quality and service and could not force "most favored nation" clauses in their contract, businesses, providers, patients and the people of Indiana would realize meaningful benefits.

With identical bills authored by a Democrat and a Republican whose enactment would benefit the majority of Indiana citizens, it appears this is one piece of legislation where we all should be in agreement. •

Williams is regional venture partner of Hopewell Ventures, a Midwest-focused private equity firm. His column appears monthly. To comment on this column, send e-mail to bwilliams@ibj.com.