

# Medical Organizations on the Insurance Market in Russia

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**Abstract:**

**Purpose** – In order to confirm or disprove the hypothesis that medical organizations play the role of intermediaries on the market of insurance products we conducted a study about the nature of intermediation carried out on the market of insurance products, as well as the analysis of the activities of medical organizations and their impact on the development of the insurance market.

**Design/Methodology/Approach** – Using a systematic approach, structural-functional method, comparative and system analysis, visualization and generalization of the obtained results, we determined that medical organizations are the intermediaries on the market of insurance products. Medical organizations were not considered to be participants on the insurance products market. To fill this gap, it was hypothesized.

**Findings** – Perspectives were developed to improve the reliability of medical organizations as intermediaries on the medical insurance market; recommendations given; fraudulent actions of medical organizations observed; situation in Russian Federation is compared with number of other countries.

**Practical Implications** – The found development perspectives will reduce the risk of opportunistic behavior of medical organizations, which is often realized in voluntary health insurance. The reduction of tort risks for insurers that provide medical insurance will reduce the number of fraudulent payments, which will have a positive impact on the tariff policies of insurance companies and increase the reliability of the medical insurance market

**Originality/Value** – The aspects of intermediation of medical organizations are analyzed from the point of view of insurance theory.

**Keywords** healthcare fraud, payment for treatment, medical intermediation, insurance product, opportunistic behavior.

**Paper type** Conceptual paper.

## I. Introduction

Intermediation is an integral part of the modern insurance market. An insurance companies (IC) in world practice and in Russia outsource many of their operations: operations related to the sales of insurance products; operations to disseminate information about the insurer; operations on the assessment of the objects of insurance and damages resulting from the realization of insured event; operations related to the verification

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of insured event, etc. The widespread intermediation on the insurance market is aimed at improving the quality of services provided by the insurer and reducing the transaction costs of the IC (Eckardt and Rätke-Döppner, 2010). The health insurance market is no exception.

The cost of medical services continues to grow faster than most incomes, even for people with private insurance coverage; that comes with ever increasing expenses in the form of deductibles and co-payments. That's true for the government funded health insurance programme for the elderly and disabled as well (Rovner, 2019). Especially concerning fee-for-service system. Unlike traditional indemnity plans, which do not use networks of doctors and pay a set percentage of what the IC deems to be a "reasonable" cost for a visit or procedure, fee-for-service plans offer different reimbursement rates for in-network and out-of-network practitioners (Wagner, 2019). To help patients not to spend more money medical organization (MOs) provide insurers with medical treatment with realization of risks insured under the voluntary medical insurance system. It is necessary to consider the MOs themselves as intermediaries who, obviously, act as part of the overall system, although their perception simply as insurance agents is clearly incomplete.

## **II. Literature Review**

The reasons for the success of intermediary sales channels are fully reflected in the research of S. Dominic Ferreira, demonstrating that the activities of intermediaries have a positive effect on the satisfaction of insured persons by the insurance products they purchase (Dominique-Ferreira, Vasconcelos and Proença, 2016; Dominique-Ferreira, 2018). The domestic authors who have identified the influence of the activity of intermediaries on the development of the insurance market from the point of view of financial convergence include Z.V. Pisarenko, S.A. Belozeroва and N.P. Kuznetsova (Kuznetsova and Pisarenko, 2011; Belozero and Pisarenko, 2014).

Most authors who have studied insurance intermediation pay special attention to the so-called insurance intermediaries, which include insurance agents and insurance brokers. Therefore, in the theory of insurance there is an understanding of intermediation activity as an activity of providing services related to the sales of insurance policies, in particular, medical ones. Such vision of intermediation in the field of insurance is especially widespread among the Russian economists (Kulakov, 2013; Gukov, Shor and Shor, 2016). We consider this approach to be wrong, since insurance brokers and professional insurance agents represent only one part of the intermediary infrastructure on the insurance market. There is not only an agent or a broker between the insurer and the insured, but also other market participants who represent the interests of the participants of insurance relationships. A similar idea is expressed by J.V. Stempel (2009): intermediators on the insurance market include not only agents and brokers, but also adjusters, independent experts and specialists in settling legal settlements in the field of insurance. We consider this approach more acceptable for the theory of insurance, since it allows a broader view of the essence of intermediary activity.

However, the foreign and domestic studies do not give a classification of intermediaries operating on the market of insurance products based on some specific criteria. Therefore, intermediation activity still does not fully cover the field of insurance. A reference to the activities of medical institutions in the study

related to risks was made by K. Arrow more than half a century ago. In his article he noted that there is a risk of unfair conduct on the part of MOs. The author also touched upon the topic of a conflict of interest between the insurer and the health care provider (Arrow, 1963). Indeed, an analysis of foreign and domestic experience demonstrates that medical insurance is one of the most “criminogenic”.

### **III. Methodology**

This study is focused on intermediation on the market of health insurance. Using a systematic approach, structural-functional method, comparative and system analysis, visualization and generalization of the obtained results, we determined that MOs are the intermediaries on the market of insurance products. Recently medical insurance markets in different countries have aroused the interest of researchers (Keegan et al., 2016; Karan, Yip and Mahal, 2017; Zhao, 2017), however in their works the aspects of intermediation of MOs are not analyzed from the point of view of insurance theory. We identified a group of intermediaries operating on the market of insurance products, the essence of which was not fully investigated within the framework of the theory of insurance — MOs. Moreover, their activity was not considered within the insurance market.

### **IV. Results**

#### **4.1 Opportunism of MOs and insurance fraud**

*An example of opportunism of MOs* on the insurance market is the incident in China in the province of Lianshun. In 2015 out of 135 MOs operating in the province 107 were involved in insurance fraud by medical personnel. The employees of medical institutions compiled lists of medical services that were allegedly provided to policyholders, but in fact were not provided (The Daily Star, 2015).

*Fraudulent payments in the field of medical insurance*, according to the Coalition Against Insurance Fraud, amount to about \$ 54 billion a year. In general, the level of insurance fraud in the United States is approximately 10% of insurance payments (Official site of Coalition... n/d). Though the United States spends almost 20 percent of its gross domestic product on health care. The transformation of the United States' health care economy began with the creation of insurance companies and their evolution into for-profit entities (Rosenthal, 2017). In 2016, the representatives of the Russian Insurers' Association made a statement that about 15% of insurance payments in the field of voluntary medical insurance were fraudulent (Official site of the Vademencum... n/d). The role of MOs in receiving fraudulent payments was also disclosed.

*Types of fraudulent actions of MOs:* 1) *Fraud against the insurer:* a) MOs overestimate the cost of treatment received by the insured person in order to obtain additional funds from the insurer. b) MOs prescribe treatment with expensive drugs, samples of which were obtained free of charge from representatives of pharmacological companies. 2) *Fraud against the insurer colluding with the policyholders.* The fact that the alliance between patients and physicians may lead to health care overspending is well documented in the health economics literature on ex-post moral hazard. Although medical ex-post moral hazard is not stricto

sensu a fraudulent behavior, it highlights the importance of the policyholder service provider coalition, and how this coalition may jeopardize the efficiency of social or private risk sharing mechanisms. One of examples is postponing claims to the last month of the policy year and in merging two losses in a single claim (Picard et al., 2019). 3) *Fraud against the insured and the insurer* (making false diagnosis in order to obtain as much monetary reward as possible (Epifanova, 2013)).

***Most prevalent types of healthcare fraud***, according to the FBI's Financial Crimes Report, are billing for services not rendered; upcoding services and medical items (where the provider submits a bill using a code that yields a higher payment than for the service or item that was actually rendered); filing duplicate claims; unbundling (billing in a fragmented fashion for tests or procedures that are required to be billed together at reduced cost); performing excessive services; performing unnecessary services; and offering kickbacks. Another common type of fraud is the abuse and resale of legal narcotic and other prescription drugs. In this study we will focus primarily on opportunism against the insurer, since it is the insurer, who is a manufacturer of the insurance product (Insurance Information Institute, 2019).

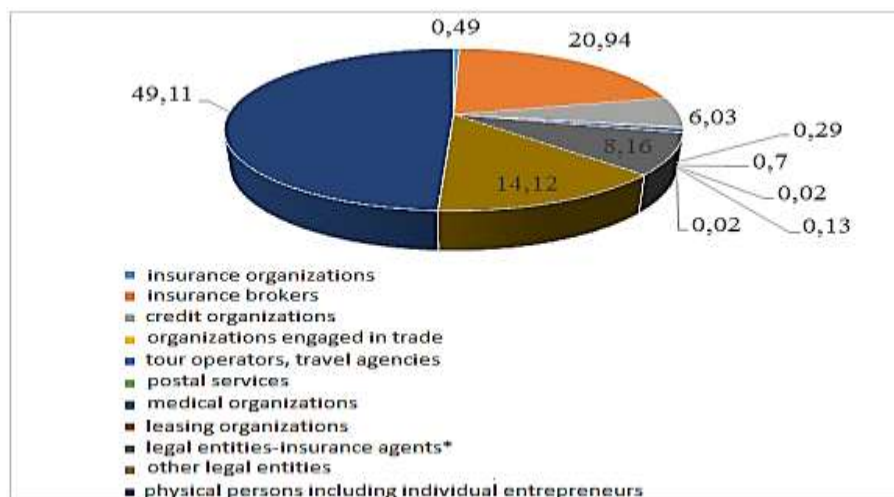
## **4.2 Essential features of intermediary role of MOs**

We will consider, which functions are performed by MOs on the insurance market. Previously we gave a classification of intermediaries engaged in professional activities on the market of insurance products, depending on the risks they generate – two groups with subgroups (Kozminykh and Ostanin, 2017).

1) By purchasing an insurance policy, the insured per acquires guarantee of protection of his interests, and not a medical service. He receives the latter only in case of realization of the insured event, i.e. the ultimate benefit acquired by the insured person is the guarantee of the insurer. 2) The insured person may not receive a full compensation for the treatment, but only a certain part that the IC will pay for. Then, in order to receive a full compensation for the treatment the insured person will have to apply to the MO for an additional service and pay for it independently or from budgetary funds in case of resorting to a medical institution under the coverage of the policy of obligatory medical insurance. 3) As a result, a person either enters into direct relations with a MO in the case of a private clinic, or, in the case of the policy of obligatory medical insurance, in relations with the state, which in Russia acts as an insurer of compulsory medical insurance. In this article we will focus on voluntary health insurance, because compulsory medical insurance is a topic for a separate study.

### **4.2.1 Share of intermediary sales of voluntary health insurance policies**

MOs belong to a group of the identified non-financial direct intermediaries that generate tort risks for the insurer (as evidenced by the data on fraud) involved in the process of buying, selling and consuming insurance products. It is appropriate to clarify that MOs can act in two roles on the insurance market. On the one hand, they can perform the function of an insurance agent, realizing the sale of insurance policies. On the other hand, MOs act as a non-financial direct intermediary, which provides policyholders with an opportunity to consume insurance products in the form of a medical service. Figure 1 shows a diagram demonstrating which share of the policies of voluntary health insurance was sold by certain groups of intermediaries selling insurance products in the Russian Federation.



**Figure 1.** Data on the share of sales of voluntary health insurance policies by different groups of intermediaries in 2017 in the Russian Federation, %

As can be seen from the data in Figure 1, MOs collect 0.13% of insurance premiums for voluntary health insurance, which represents a small share of intermediary sales of this type of insurance products. This indicates that the role of MOs as insurance intermediaries–agents is insignificant on the insurance market of Russia.

#### 4.2.2 Additional payment for treatment included in insurance service due to exceptional relationship “insurance product”–“insurance service”–“insurance operation” for MO

Of much greater interest is the role of MOs as non-financial direct intermediaries. *The insurance product* (object of sale on the insurance market = ultimate good acquired by the insured and a guarantee of protecting the interests) includes a set of *insurance services* (the result of actions of the IC), which, in turn, may include *insurance operations* (the actions of the IC or its representatives). The relationship is based on the proposal of S.A. Belozerova and O.V. Motovilov (2012).

*Medical insurance products* are the materializations of *medical services*. For the insurer this medical assistance will be an insurance operation that it has outsourced. An insurance operation is a specialized medical service. But medical treatment may include separate operations: payment for the treatment, receiving feedback from the insurer by the insured person. From our point of view these actions are insurance operations. Therefore, an insurance operation is a set of actions to provide insurance services. The IC as an insurance agent selling insurance policies can still refuse their services, but the insurer cannot refuse their services as a direct non-financial intermediary providing insured persons with an opportunity to consume the insurance product (Savvina, 2015; Osadets`, 2002; Gomel et al., 2013). In case of realization of the risk insured by the voluntary health insurance the insured person contacts the IC for information on where he can receive treatment, then he contacts the MO for medical assistance, the MO contacts the insurer for compensation of money spent on the treatment of the insured person. All the above actions are operations for the provision of insurance services.

## V. Discussion of the research results: recommendations

In order to increase the reliability of the medical insurance market and reduce the insurer's additional payments, which will lead to an increase in insurance rates in the future, it seems expedient to develop *perspectives for solving this problem*:

(1). *To create captive MOs by insurance companies* to mitigate the conflict of interests between the insurance and MOs giving an opportunity to representatives of insurance organizations to assess the reliability of medical staff. But this can lead to the exacerbation of the conflict of interest between the insured and the insurers. This is due to the fact that the IC, in addition to protecting the interests of policyholders, has a goal of earning profits. Insurance payments are the main source of expenses for the insurer. The insured person, in turn, seeks to maximize the utility function from the purchase of an insurance product.

(2). *To use the mechanism of public-private partnership (PPP)*, which is widely used in international practice (Roehrich et al., 2014) to mitigate the risk that captive MOs may take the side of the insurer and to reduce the costs of Russian insurers on the creation of captive medical institutions. PPP will increase the role of insurance companies on the medical insurance market, increasing the reliability of medical institutions and gradually erasing the boundaries between the markets of voluntary health insurance and obligatory health insurance.

(3). *To use the institutional form of cooperation* between the state, insurers and medical institutions. The form of concession is not considered, because according to the current legislation of the Russian Federation on concession agreements with this form of public-private partnership there are two parties involved, the grantor represented by the state and the concessionaire, in the case of medical insurance represented by a medical institution (Adzhienko and Kosinova, 2017). Currently, Russia is preparing a reform in the field of compulsory health insurance, as a result of which the role of insurers will increase on the market of obligatory health insurance.

(4). *Compilation of reliability of MOs rating by insurers*. It can be compiled on the basis of data regarding the cases of abuse by MOs of their powers. This will help insurance organizations in Russia not to get involved with unreliable MOs.

## VI. Conclusion

The working hypothesis of this study that MOs play an intermediary role on the market of insurance products in world practice and in Russia was confirmed. The essence of such intermediation — in case of realization of the risk insured by the system of voluntary health insurance, the insured will receive medical treatment in a medical institution guaranteed by the insurer, i.e. MOs are involved in the process of consumption of the insurance product by the insured. This is the main function of medical institutions on the insurance market. Despite the fact that MOs can sell insurance policies, i.e. playing the role of an insurance agent, this function is of secondary importance and is not fully implemented in Russia as evidenced by the low share of insurance premiums collected through sales carried out by MOs. This conclusion will allow a more complete and broad consideration of intermediation in the framework of the theory of insurance.

The specific feature of medical insurance products lies in the fact that they include not only insurance, but also medical services. The provision of assistance is only a part of insurance services related to satisfying the needs of the insured in obtaining medical treatment. In turn, the outsourced insurance operation of providing professional medical assistance is a professional service that the medical institution provides to the patient.

Insurance organizations are offered to create captive MOs and to use the institutional form of public-private partnerships on the health insurance market. This will reduce the risk of opportunistic behavior of MOs, which is often realized in voluntary health insurance. The reduction of tort risks for insurers that provide medical insurance will reduce the number of fraudulent payments, which will have a positive impact on the tariff policies of insurance companies and increase the reliability of the medical insurance market.

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