

SWITCHING BENEFITS AND COSTS IN THE IRISH HEALTH INSURANCE MARKET

AN ANALYSIS OF CONSUMER SURVEYS

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Switching benefits and costs in the Irish health insurance market: an analysis of consumer surveys¹

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INTRODUCTION

An insight into the competitive nature of health insurance markets can be gained from understanding what influences a consumer's decision to switch from one health insurer to another. A health insurance consumer's decision to switch insurer will be influenced by the relative benefits and costs to switching. Benefits to switching mainly relate to cost-savings and better quality of insurance plans. Costs to switching come in many forms and can include the time and effort involved in switching insurer (transaction costs) and the time spent identifying and interpreting alternative insurer plans (search costs). Health insurance consumers may also be subject to behavioural biases such as loyalty to their insurer or a preference for the status-quo (known as 'psychological costs') which may impede switching. High switching costs can weaken market competitiveness and inequalities can arise if certain groups of consumers are more likely to experience these costs. This analysis examines consumer-reported benefits and costs to switching health insurer in the Irish private health insurance market.

DATA AND METHODS

This study uses survey data from three consumer surveys of the Irish private health insurance market collected between 2009 and 2013. These data were collected by the Health Insurance Authority (HIA), the health insurance market regulator, and

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captured information on reasons for (not) switching insurer, socio-demographic characteristics and self-assessed health status of respondents.

The analysis examined the most prevalent perceived benefits and costs to switching insurer as well as the relationship between consumer characteristics (for example, age and health status) and reported switching costs, and actual switching behaviour, respectively.

FINDINGS AND DISCUSSION

Cost-saving was the most frequently reported reason for switching insurer. Over 70 per cent of those who switched insurer reported cost saving as a reason for switching. Of those who did not switch, over 40 per cent were satisfied with their current health insurer and did not switch for that reason. Perceived transaction cost was the most common switching cost identified, reported by 1 in 7 non-switchers. Psychological costs were also identified as important reasons for not switching. Over 11 per cent of non-switchers cited they 'couldn't be bothered' switching health insurance provider. Search costs were identified by just over 7 per cent of non-switchers as a reason for not switching. Older and sicker individuals were more likely to report switching costs and this was also reflected in actual switching behaviour as these individuals were less likely to switch insurer.

A recent information campaign launched by the market regulator may prove beneficial in reducing perceived transaction costs in the market. However, more targeted efforts aimed at reducing switching costs for older and sicker individuals may be necessary to reduce inequalities in the market.

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