Nederlandse Zorgautoriteit

Healthcare Liberalisation in The Netherlands: The role of the Dutch Healthcare Authority (NZa)

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Overview

- Reform and public policy objectives
- Cost of healthcare in The Netherlands
- Market failures in healthcare
- The idea behind competitive healthcare markets
- The role of the NZa
- Conclusion: 2 pieces of friendly advice

Seven key characteristics of the Dutch system

- **Market driven**
  - 100% private health insurers
  - 100% private healthcare providers
- **Consumer oriented**
  - General consumer interest leading objective
- **Within regulatory framework**
  - Full coverage of the population
  - Increasing “step by step” liberalisation of prices
  - Independent regulator/sector-specific competition authority
  - Comprehensive system of largely ex ante risk adjustment

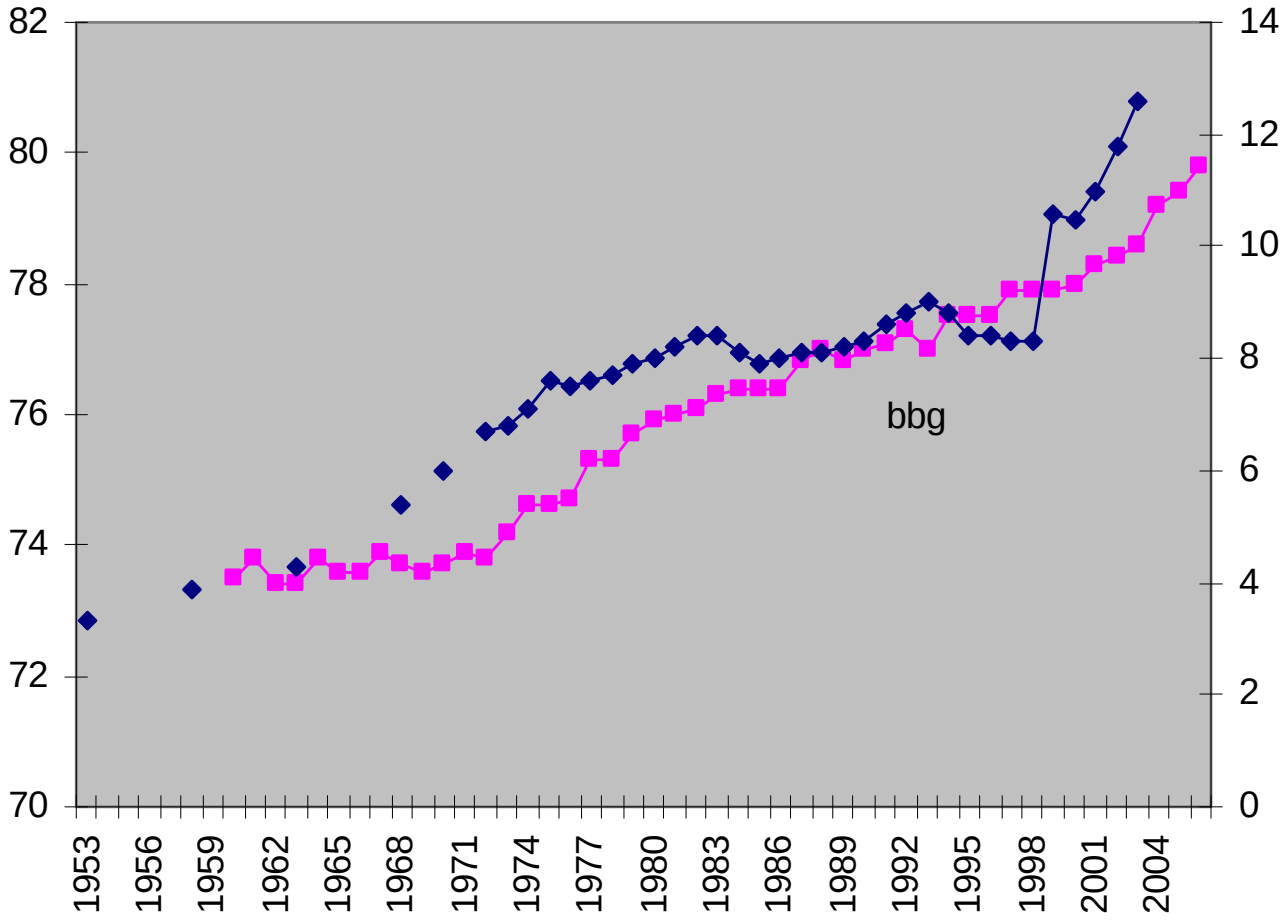
Reform and public policy objectives

- **Cutler (2002): successive waves of healthcare reform aiming at**
  - **Ensuring universal *access* to healthcare**
  - **Centralised regulation-based *cost containment* by various rationing mechanisms**
  - **Decentralised market- and *incentive-based systems***

- **Promoting effective competition is not a goal in itself but is seen as the best way to deliver the key public policy objectives of:**
  - **Accessibility**
  - **Affordability**
  - **Quality**

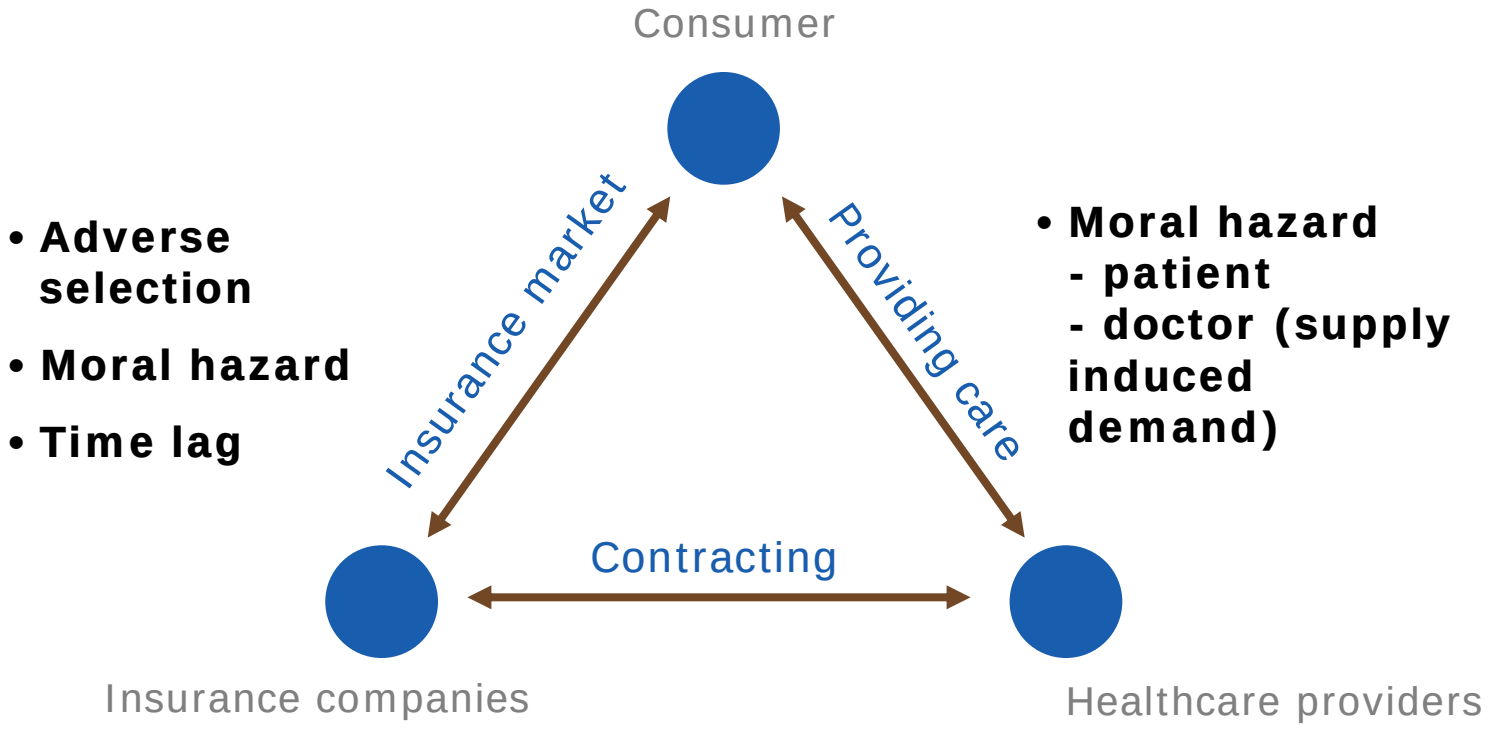
- **These three dimensions of the general consumer interest are the NZa's key objectives**

Healthcare and life expectancy in the Netherlands



Source: CBS

Market failures in healthcare



- **Adverse selection**
- **Moral hazard**
- **Time lag**

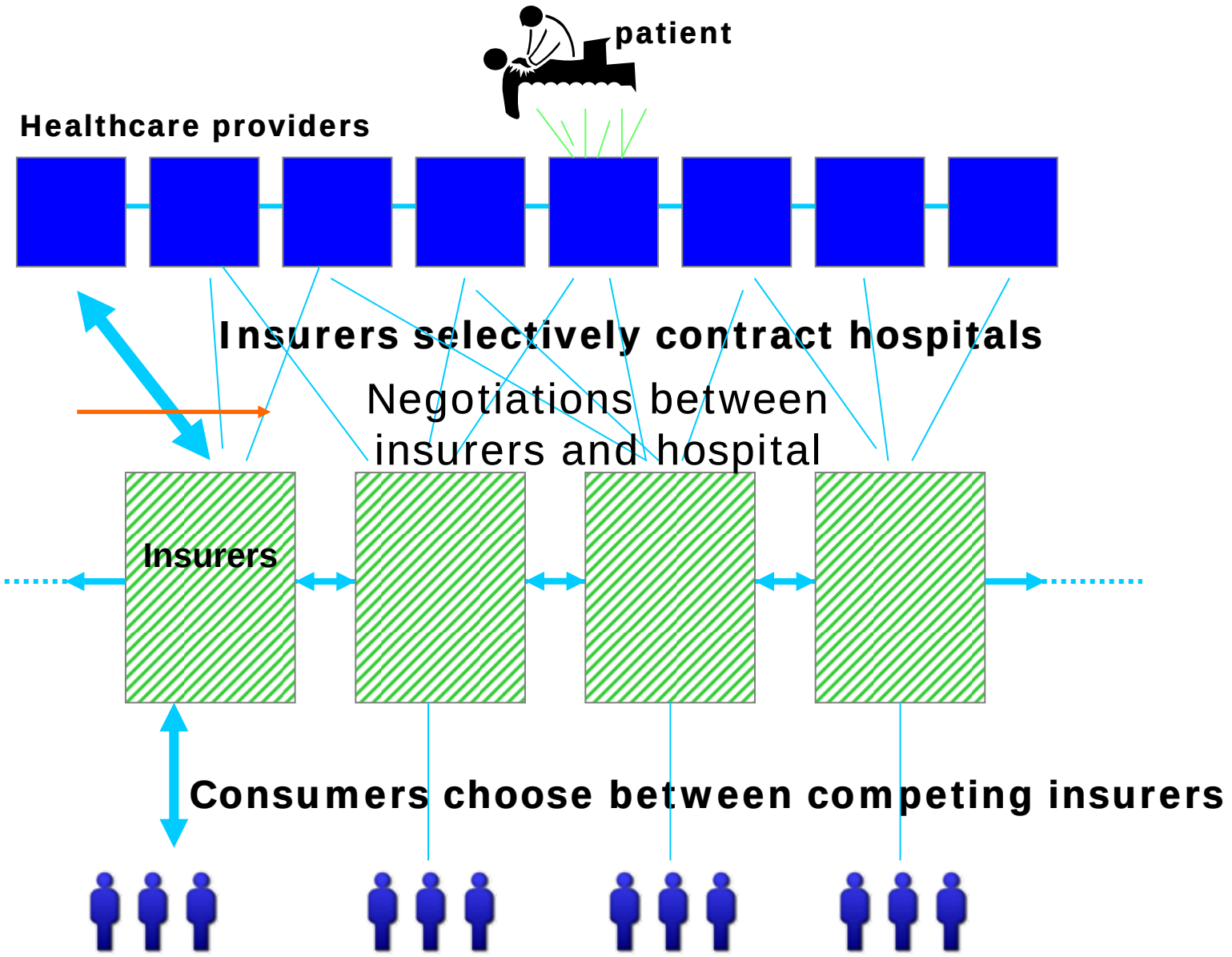
- **Moral hazard**
  - **patient**
  - **doctor (supply induced demand)**

- **Market power**
- **Externalities**
- **Information asymmetry**

Characteristics of the Dutch health insurance market

- **2005/2006 healthcare reform. Legal framework provides for:**
  - **Mandatory health insurance for all Dutch citizens + tax subsidy for lowest incomes**
  - **Obligation for all health insurers to provide services to all consumers without:**
    - **risk selection**
    - **premium differentiation**
  - **Funding regime:**
    - **50% of the premium is a nominal premium (differentiated per insurer not per consumer) and collected by insurers**
    - **50% of the premium is income dependent and collected by the state (this part of the premium is redistributed to insurers based on a risk adjustment system)**
  - **Risk adjustment system: to avoid adverse selection and moral hazard and promote competition on the merits**

The idea behind competitive healthcare markets



Economic characteristics of healthcare competition

- **Consumers have free choice of health insurance company, no risk selection, no lock-in**
- **Competition between health insurance companies leads to downward pressure on costs:**
  - **Selective contracting with healthcare providers**
  - **Directing consumers toward more efficient choices**
- **Utilization review by insurers:**
  - **Crosschecking need for treatment received**
  - **Best practice benchmarking**
- **So far these developments are in their infancy**

The Dutch regulatory landscape for healthcare

- **The CVZ (Health Insurance Authority)**
  - Advice on scope of basic insurance
  - Administration of risk adjustment system
- **The IGZ (Healthcare Inspection Agency)**
  - standard setting and enforcement role in quality control
- **The NMa (Netherlands Competition Authority)**
  - *ex post* regulation of dominant market positions
  - decisive role in merger control
  - enforcing cartel prohibitions

\+ **General regulators for behavioural and solvency aspects of financial supervision (Central Bank DNB and Securities Authority AFM)**

Role of NZa as independent regulator

1. **Market supervision / market development relating to 3 market types**
   - healthcare insurance market
   - healthcare provision market
   - healthcare contracting market

2. **Tariff and performance regulation**
   - setting prices and budgets
   - defining standard product categories

3. **Supervision of the lawful execution of the Health Insurance Act**
   - the duty of care
   - open enrolment
   - community rating

4. **Supervising lawful & effective execution of Act on Long Term Care**

5. **Advising the Health Minister both on request and ex officio (advocacy)**

Role NZa as sector-specific competition authority

- **Key elements of supervision: public interest**
  - Accessibility, affordability, quality

- **Specific powers to promote effective competition**
  1. Significant Market Power (SMP) in markets with dominant players
     - Impose proportionate obligations (from transparency to price controls)
  2. Intervene in conditions of agreements and manner in which they are concluded
     - In the event of structural problems
     - e.g. mandate access or strike out exclusivity or impose auction requirement

- **Close cooperation with general competition authority**
  - Concurrent powers relating to market power and (anticompetitive) agreements
  - NZa advises on merger control
  - Joint development of instruments e.g. methods of market definition / merger simulation

- **Powers to grant state aid in process of development towards principles of least intervention and consistency**

Conclusion: two points of advice in the context of US reforms

1. **The need for a(n independent) sectoral regulator with competition powers**

2. **The even greater need for a comprehensive system of risk adjustment as *sine qua non* for both**
   - **Competitive private insurance markets with full coverage**
   - **Competitive markets including a public option**

Thank you for your attention!

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Risk adjustment system

- **Remove financial incentives for risk selection**
  - Compensates insurers for predictable losses
  - Insurers will make an effort to efficiency instead of risk selection
  - Fair competition among insurers
- **Ex-ante risk adjustment**
  - Age, sex, source of income (e.g. salary, subsidy)
  - Region (classification of postcode areas based on socio-economic, demographic and healthcare related characteristics of the postcode area)
  - Recent outpatient drug consumption (chronic diseases)
  - Diagnose (was the patient treated in hospital last year, and does this predict further high cost treatments/ drugs?)
- **Ex-post risk adjustment**
  - Correction of the ex-ante adjustment. Necessary e.g. because of the changes in case mix from one year to the next, general cost increase, unexpected high costs
  - Net yearly risk per enrolled consumer 35 Euro