

FEATURE

HEALTHCARE ISSUES FOR THE PROPERTY & CASUALTY INSURANCE INDUSTRY

By Barbara Sulzenko-Laurie

For most of the first two decades following the establishment of universal healthcare in Canada, property and casualty (P&C) insurers played a fairly limited role in the healthcare system. The statutory primacy of the public health system coupled with greater reliance on hospital-based care during this period – for acute care *and* rehabilitation – helped to confine insurers' healthcare role largely to the realm of extended and supplementary services and payer of last resort.

Over the past 10 to 15 years this situation has changed significantly. The Insurance Bureau of Canada (IBC) estimates that in the year 2000, private automobile insurers paid out more than \$1 billion dollars in "no-fault" accident benefit (AB) claims for medical rehabilitation services. By contrast, in 1989 the private auto insurance industry's AB claims costs stood closer to \$100 million. Adding in the bodily injury (BI) costs of tort awards raises the total cost of the industry's injury-related loss costs to more than \$3 billion in 2000.

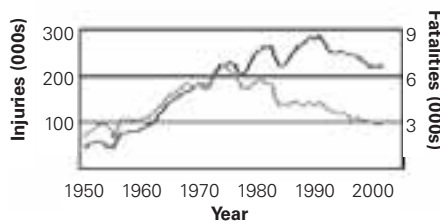
That the industry is again in a period of rapid acceleration of its health costs is evident in recent analysis from Ontario showing that the annualized rate of increase in AB medical rehabilitation costs rose from 12.7 per cent just 12 months ago, to 14.3 per cent six months ago, to 16 per cent today.

A number of factors contributed to pushing up insurers' care costs so dramatically. For one thing, budget pressures prompted hospitals everywhere to push ever-larger portions of the recuperation and rehabilitation services that injured people need into the community – where they are often delivered by private healthcare providers and nearly always paid for by insurers. In a similar vein, shortages of publicly funded diagnostic and home-

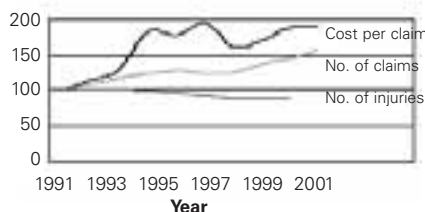
care services pushed new costs onto P&C insurers. Also significant has been the introduction of varying degrees of "no-fault" insurance benefits in many jurisdictions across Canada, which has resulted in the insurance industry taking over a great deal more of the responsibility for the medical and rehabilitation needs of injured crash victims.

A number of less tangible factors are also important in the rising tide of insurers' health costs. One example is the growing propensity on the part of people involved in collisions to view insurer-paid health services as an entitlement that they have a right to access regardless of their actual condition. This phenomenon is not unique to Canada, but has been reported by researchers all over North America. Its reality in this country (illustrated in the charts below) shows that, during the past decade, at the same time that the number of traffic injuries and fatalities continued its 25-year decline, both the number of injury claims and cost per claim climbed significantly.

Traffic Injuries and Fatalities



Injuries and Med/Rehab Claims



CALENDAR

RISK HOMEOSTASIS

Teleconference

Wednesday, November 20, 2002

10:00-a.m.–11:00 a.m. EST

- Dr. Gerald Wilde will discuss his work on risk homeostasis, a theory that examines the basis for human risk-taking behaviour. Referred to as risk compensation theory, risk homeostasis asserts that people have a comfortable level of risk in return for the benefits from engaging in risky activities. Dr. Wilde will discuss alternatives to traditional approaches to safety.

Teleconferencing free to Ontario participants. Those out of province may participate for \$50. per port to cover long-distance charges and resource materials. Contact Joanne Meyrick at 416-596-2704, or email learning@smartrisk.ca, or see www.smartrisk.ca.

STRATEGY, SYNERGY & SOLUTIONS

National Association for Women's Health 15th Annual Executive Summit

November 8 to 11, 2002

Seattle, WA

The Westin Seattle

- Information on what is happening across the country, showcasing trends and challenges within the industry and opening up a vast network.
www.nawh.org/Conference%2002/Conference%20Index%2002.htm

GLOBAL SOCIAL CHANGE PHILANTHROPY: FUNDING A WORLD THAT WORKS FOR EVERYONE – GRANTMAKERS WITHOUT BORDERS 2002 CONFERENCE

November 17 to 19, 2002

Gallaudet University Kellogg Conference Center

Washington, DC

- Social change philanthropy offers grantmakers opportunities for action and impact, rooted in the ideals of justice, equity, peace, democracy, and respect for the environment. The conference will challenge funders to explore the meaning and practice of global social change philanthropy in forty sessions.

www.internationaldonors.org/conference/index.htm

NEW PUBLICATIONS

INSURANCE LOGIC: RISK MANAGEMENT STRATEGIES FOR CANADIANS

by **Moshe Arye Milevsky and Aron A. Gottesman**

Hardcover, \$29.95 Cdn; ISBN: 0773733264
Stoddart Publishing Co.
(publisher currently in dispute)

- Various types of insurance, with chapters on health insurance, fraud, resources and suggested reading.

FOOD POLITICS: HOW THE FOOD INDUSTRY INFLUENCES NUTRITION AND HEALTH

by **Marion Nestle**

Hardcover, \$49.50 Cdn; ISBN: 0520224655
University of California Press

- How the food industry, through lobbying, advertising and co-opting of experts, leads profit-fixated food producers to broaden markets, leading to obesity and health problems.

FAST FOOD NATION: THE DARK SIDE OF THE ALL-AMERICAN MEAL

by **Eric Schlosser**

Paperback, \$21. Cdn; ISBN: 0060938455
HarperCollins

- How the development of fast-food restaurants has led to the standardization of American culture, widespread obesity, urban sprawl and health problems.

FEED YOUR CHILD RIGHT: A PEDIATRICIAN'S NOTES ON NUTRITION, EASY-TO-PREPARE RECIPES, AND HEALTHY SNACKS

by **Albert C. Goldberg**

Paperback, \$25.95 Cdn; ISBN: 0871319500
M. Evans and Company

- Deciphering nutrition labels to checking out the school cafeteria menu, info on nutritional needs and food cravings of infants, children and adolescents.

HEALTH CARE, ENTITLEMENT AND CITIZENSHIP

by **Candace Johnson Redden**

Paperback, \$19.95 Cdn; ISBN: 0802084664
University of Toronto Press

- Theoretical dimensions of citizenship and rights as intersected with health-care politics.

1-800-565-9523

Another major source of escalating insurer healthcare costs is fraud. One type of fraud involves premeditation and planning, while the other – much more common – type seeks to take advantage of an insurer by inflating the severity of an injury and related rehabilitation needs. Last fall, the Canadian Coalition Against Insurance Fraud released the results of an independent research study undertaken to determine a credible costing of fraud relating to medical rehabilitation claims. The study examined more than 4,000 closed claims files, making this the first study

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of such magnitude ever conducted in Canada. The bottom line of the study's findings was an estimate that between 15 per cent and 22 per cent of injury claims are fraudulent, costing the industry as much as \$430 million a year.

Concerns about quality and consistency of rehabilitation care

Each year in Canada, more than 225,000 people are injured in motor vehicles. As large as that number might seem, it has been estimated that close to six times more people suffer unintentional injuries from other sources, such as falls and sports mishaps. Immediately following their injuries, trauma victims who are insured tend to receive the same treatment as anyone

else who uses the publicly funded healthcare system. It is after they leave the acute-care phase of their treatment that differences emerge in the quantity and quality of care that is available to injured people.

Following acute-care treatment, a significant proportion of injury victims seek the services of professional rehabilitation health providers. When they do, their goals are generally to restore functional capacity and regain quality of life at work and in the community. It is the insurer's role to provide injured people with the resources to achieve these objectives. Yet, together with the steep increase in insurers' rehabilitation costs have come doubts about the effectiveness of some of the treatments being funded.

Problems in Canada's rehabilitation health sector – and the negative effects for users and funders of the services alike – are exacerbated by the historic lack of attention that the sector has received from health-policy decision-makers. IBC estimates that, nationally, more than \$3.4 billion is being spent each year on rehabilitation services by provincial health plans, workers' compensation boards and private and public insurers. Yet, the sector has not succeeded in being treated as part of the mainstream of planning and resource allocation for healthcare.

With the transfer of many rehabilitation services out of the public healthcare system in recent years, there are suggestions that public policy's neglect of rehabilitation has grown more pronounced. It appears that once responsibility for a stream of treatment leaves the publicly funded segment of healthcare, there often is no organized data gathering, no way of determining who may be falling between the cracks, no systematic problem identification and no sector-wide planning. For instance, in Ontario at least two studies of the rehabilitation sector commissioned by the Ministry of Health in recent years have remained on the shelf, their findings and recommendations not acted upon.

Among the problems that insurers encounter in the rehabilitation sector, some of the most serious are noted below:

- Extreme fragmentation within the rehabilitation health sector – different funders and a wide variety of providers housed under different roofs – is a major impediment to continuous quality care of patients, as it also is an impediment to cost containment.
- Relative to other parts of healthcare, there has been limited research on the health outcomes from different approaches to treating common traumatic injury conditions requiring rehabilitation. Given the wide variety of treatment modalities offered as rehabilitation therapies, consumers and insurers are in a weak position to identify the therapies with the best prospects for improving their condition.
- Similarly, there are no consistent evaluation processes being applied across the rehabilitation sector. Providers who are members of a regulated profession are usually required to participate in continuing competence activities. However, this is often not the case for unregulated providers or for agencies. As a result, “word of mouth” may, in some circumstances, be the only means for individuals to find out where the quality of care is highest and where quality may be problematic.
- Finally, the fact that insurers still pay for health services almost entirely on a fee-for-service basis means that the insurer’s ability to control the growth of healthcare expenditures is very limited indeed. Study after study has shown that fee-for-service is an unnecessarily expensive method of funding health services and is prone to service overutilization. Not surprisingly, provincial ministries of health and workers’ compensation regimes across the country are heeding this advice with efforts to move to alternative funding methods

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for the health services *they* fund as a way of improving the quality of care and patient outcomes and containing the escalation of costs. Up until now, however, private insurers, particularly automobile insurers, have been given little flexibility to move away from the fee-for-service model.

Other healthcare issues

Although the cost and effectiveness of rehabilitation services are clearly central to insurers’ and their customers’ interests in healthcare, they are not the only important health issues with which insurers are grappling.

For instance, in many provinces the private insurance industry makes a payment each year to the provincial government that is intended to cover the cost of the use of public healthcare system services (primarily hospital and physician services) by innocent victims of motor vehicle collisions. These payments, termed “insurance health levies,” have been in effect since the early 1990s, when they were introduced to replace direct case-by-case subrogation for public-system healthcare costs. Since inception, the insurance levies have increased substantially in most provinces – for example, by 167 per cent in New Brunswick over seven years and by 37 per cent in Alberta over two years.

Today, automobile insurers are paying more than \$180 million annually in health levies in six provinces. For the insurance industry, increases of this magnitude suggest that, in at least some cases, the levies have risen faster than the actual costs to the provincial health-care systems of treating collision victims.

Another serious health issue for insurers emerges from the continuing toll of injuries and deaths from motor vehicle crashes. The P&C industry supported mandatory vehicle seatbelt use in the 1960s, campaigns against drinking and driving in the 1970s and 1980s, and road safety initiatives and graduated licensing in the 1990s. These and complementary efforts by other organizations and governments have paid off in the trend to dramatically lower injury and death rates from motor vehicle crashes over the past 30 years. Still, bodily injuries from automobile incidents remain very costly in the broadest sense. That this continues to be the case, and that Canada has a worse death rate from road incidents than most developed countries, reflects the failure of Canadian authorities to invest sufficiently in injury prevention as a central stream of national health policy, as many of our trading partners have done.

Further, there is no shortage of other healthcare issues that are of concern to the P&C industry. From the need for a more integrated primary system with less reliance on fee-for-service funding, to the tenor of health provider/insurance industry relations, to the need for enhanced data collection and data-sharing capacity within the health sector – there is a wide variety of issues that stand to profoundly affect the effectiveness, efficiency and cost of the health services for which insurers pay.

IBC’s Health Issues Project

Late in 2000, IBC established a national project on healthcare issues. The vision statement for the new project, as approved by IBC’s Board of

Directors, is “to ensure confidence that insurers’ medical and rehabilitation resources are used efficiently to help victims of automobile accidents achieve their best health status as soon as possible.” This Health Issues Project is being carried out under the auspices of an IBC steering committee, comprised of senior executives from the P&C insurance industry.

In its first year, the project launched a variety of activities aimed at securing greater value for insurers’ healthcare expenditures. A sampling of the accomplishments of the Health Issues Project’s first year includes the following:

- IBC made submissions to the Romanow Commission on the Future of Health Care in Canada and the Kirby Senate Committee review of national health policy. These submissions threw the spotlight on the P&C industry’s major concerns about healthcare, in particular:
 - the need to establish a permanent National Injury Prevention Program as an essential element in securing the sustainability of the health system, and
 - the need for reform of the rehabilitation sector of healthcare.
- The paper version of a standard invoice was introduced in Ontario for health practitioners who bill insurers directly. The standard invoice is an important step in creating the capacity to aggregate data on the industry’s health expenditures and the treatment of injury claimants. Particularly with the anticipated move to an electronic platform for the standard invoice, it will make the payments process more efficient and enable more systematic analysis of different treatment approaches, as well as improved fraud detection.
- Also in Ontario, IBC developed proposals for changes to the Insurance Act aimed at tightening the accountability of rehabilitation providers for delivering cost-effective care and to

streamline the dispute resolution process. Some of these proposals have been incorporated in Bill 166, recently introduced in the Ontario Legislature.

- A reference guide for claims professionals on managing injury claims was published. Available only to the insurance industry, the guide is intended to enhance adjusters’ understanding of the healthcare system and common injury conditions.
- Work on the provincial health insurance levies led to the launch of a new study of the costs incurred by the provincial health system in Alberta in treating the victims of motor vehicle crashes.
- A national study of injury fraud was published, and polling information was commissioned on Canadians’ attitudes toward injury fraud.

Moving forward

Now in its second year, the IBC Health Issues project is building on its accomplishments in the areas listed above and also undertaking a limited number of new initiatives. The goals the insurance industry has set for itself in achieving truly effective management of its healthcare obligations are clearly ambitious. Mindful of this, the industry directed that a major theme of all work carried out under the auspices of the Health Project must engage the other major stakeholders in the health system.

For example, in advocating for a major commitment by the federal government to national injury prevention, IBC partnered with SmartRisk, a leading organization dedicated to the control and prevention of injuries. In designing and refining the standard invoice system in Ontario, the industry engaged the energies and good will of numerous representatives of the rehabilitation health professions. Other activities produced close working relationships with workers’ compensation boards, foundations, “best practices” researchers and, of course, government departments.

In its submission to the Romanow Commission, IBC commented: “As increasingly important payers for health services, insurers today confront healthcare issues that are in many ways analogous to those faced by provincial governments and workers’ compensation systems.” For private insurers, no less than for the public sector funders, the major and ongoing task is to become and remain very skillful at managing our healthcare responsibilities.

Barbara Sulzenko-Laurie is the Manager of the Insurance Bureau of Canada’s National Health Issues Project. www.ibc.ca

WORTH RE-QUOTING

“Art demands of us that we shall not stand still.”

– Ludwig van Beethoven

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