A Study to Develop Cost Negotiating Strategies of Hospitals Empanelled with Aditya Birla Health Insurance (ABHI)

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Introduction

- Health Insurance Companies like ABHI, bears the expenses, when a customer covered in the health insurance policy gets admitted in the hospital for any kind of treatment/ surgery as per the terms and conditions agreed in the policy.
- For this, ABHI maintains a network of hospitals across the country by taking them on the panel signing a mutual MOU.
- Certain conditions in MOU says about the hospital rates as to which ABHI shall pay for their customers.
- These rates are agreed between both the parties at the time of MOU agreement, and stays for a certain validity period.
- After completion of the lock-in period, hospitals again send their updated tariffs with new rates, modified packages etc., to ABHI.
- This tariff is analysed by Central Operations Team of ABHI, and understand the impact the rate revision shall have on the complete claims portfolio.
- Based upon the impact analysed the central operations team along with the regional team negotiates with the hospitals to get better rates and discounts.
- Negotiation here means, as per the competition and inflation in the market, ABHI tries to bring in better deals with the hospitals in terms of the Costs of Services, hospitals are providing.

- All the hospitals, with whom, negotiation has been done and new rates/ packages are been implemented are taken for this study.
- Hospitals are divided into Tertiary Care and Secondary Care, based on the Bed Strength & Tier Type Cities.
- Tariff analysis is done on a pre-decided calculator sheet by which several impacts are being identified:
  - Medical Management Impact: Room Tariff, Doctor's Visit Charges, Basic Investigation Charges.
  - Surgical Management Impact: Various surgeries which share the maximum share of the total amount, Drugs and Consumables required for that particular surgery, OT Charges, Anaesthesist Charges, Surgeon charges, Costs of Implants etc.
    - These surgeries are either displayed as rack rates/ open charges or Packages (which will include everything on better schemes)
    - Sometimes OT charges and Ansaethesist charges are also given as overheads of surgery charges. (eg; 50% on Surgery charges:- OT Charges).

- It is also observed that the medical management impact also influence on surgical management.
- This increases the overall impact of the hospital.
- Whenever tariff is compared for any hospital, it is important to identify the increments that hospital has done on the tariffs and the old discount which was offered during the agreement period.
- Based on these conditions, new tariff is negotiated so that ABHI saves cost from both the ends/parties.

Literature Review

- The bigger the health insurer, the lower the prices it can negotiate from physician groups. Large insurers with market shares of 15% paid prices for independent physician office visits that were 21% lower on average than prices negotiated by small insurers with shares of less than 5% of a given market, according to the study published in Health Affairs.

The bottom line: “Bigger insurers have this bargaining power they are using to negotiate lower prices”. The researchers used a multi-payer claims database, to analyze how much commercial health plans paid. They analyzed three different types of standard doctor's visits, many of which were billed by primary-care doctors.

- Healthcare costs are a constant focus of attention. Most typically, the provider and payor begin negotiating contract renewals nine months before the contract is up. Most contracts are one to three years in duration, so these negotiations happen quite frequently. Often, the provider chooses a number (a percentage increase in reimbursement rates) and announces it to the payer: "We want a 7 percent increase for the next three years!"

The payer, in turn, brings a briefcase of data to the table, trying to prove to the provider that this is an outrageous request and that "the market suggests that even a 1 percent increase might be too much." In turn, the provider attacks the data, points to their rising costs and decreased levels of reimbursement from Medicare and Medicaid, and indicates, "We could come down a bit, but a 6 and three-quarters percent increase is our best offer." Of course, the payer comes back with "the most significant concession"—and an appeal for both sides to "be reasonable"—of moving up to a 2 and half percent increase.

RESEARCH QUESTION

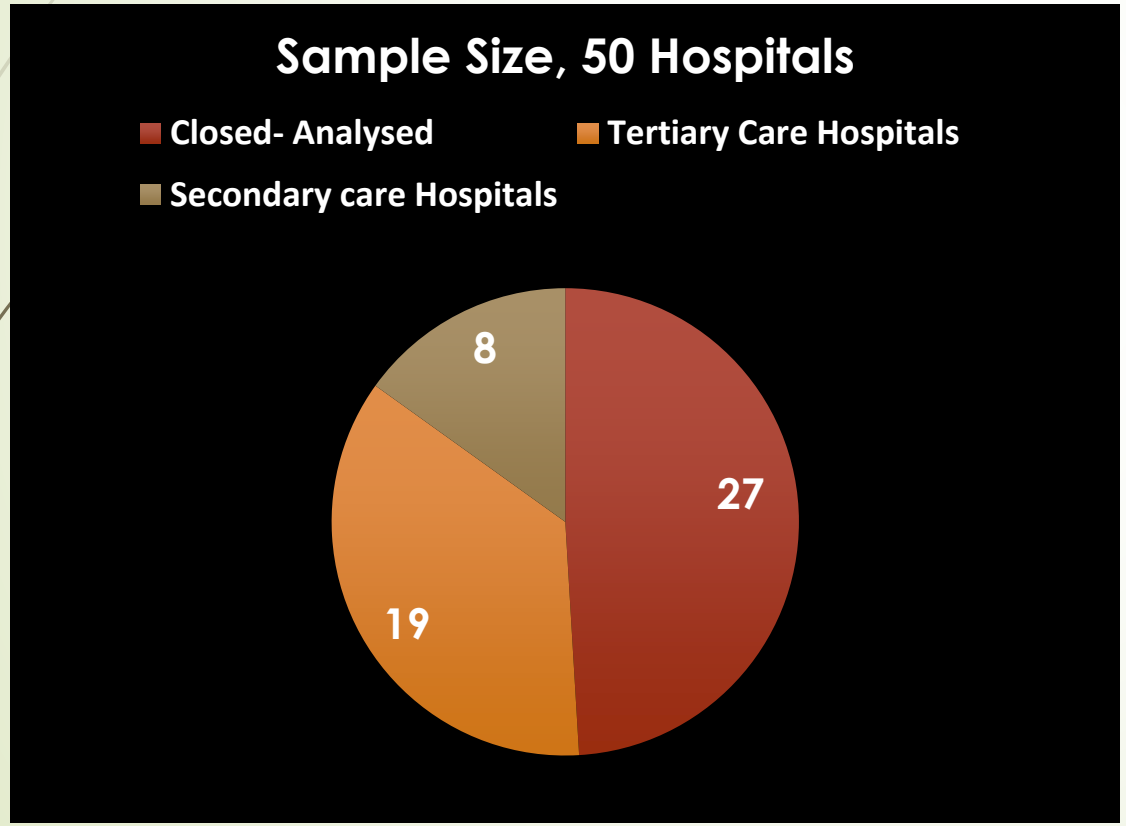
What strategies can be developed for negotiating tariffs from empanelled hospitals with Aditya Birla Health Insurance Co. LTD. (ABHICL)?

OBJECTIVES

- . To build Cost Saving Strategies for ABHI from networked hospitals.
- To prepare hospital specific recommendations to negotiate with the hospitals through central operations team

Study design

Sample Size	Closed- Analysed	Tertiary Care Hospitals	Secondary care Hospitals
50	27	19	8



Methodology

- Descriptive cross sectional study was performed.
- Firstly the request for SOC comparison is received from hospital to the regional manager which is directed to central operations team,
- Old and new tariffs/ SOCs are compared and impacts such as Medical Impact, Surgical Impact, Overall Impact are calculated.
- While analysing impacts, current discounts which are going on with the hospital were also observed.
- All this data is being sent to the regional managers for the respective hospital locations and they start negotiating with the hospitals to get the best discounts and deals possible for ABHICL.
- These discounts when agreed are studied as to on what conditions does this apply and accordingly average cost saving is calculated.
- Total 50 hospitals were studied out of which 27 hospitals were closed with the agreed discounts.
- In this, 19 hospitals were tertiary care hospitals based on the bed strength and location and rest8 hospitals were secondary care according to the bed strength and location.

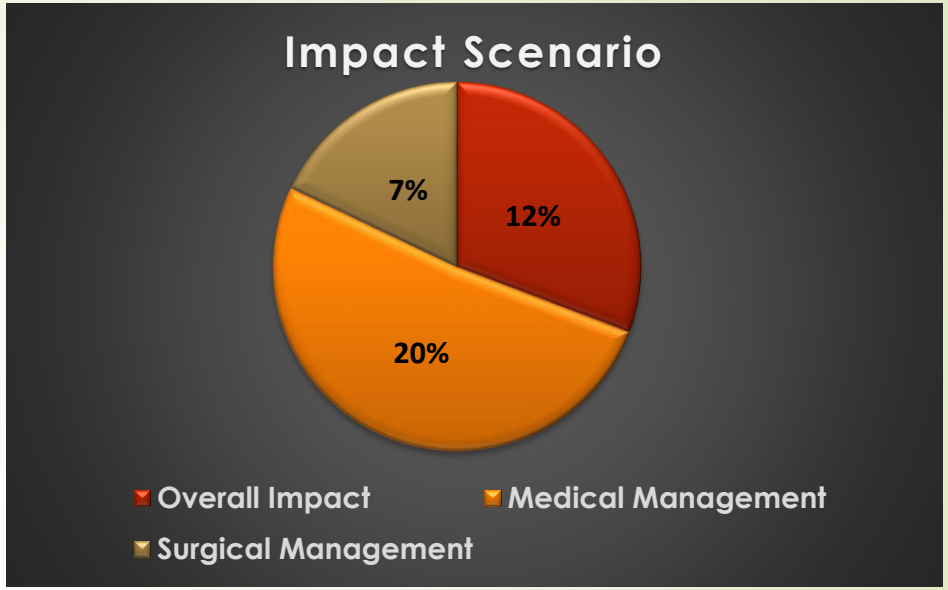
Case Study: Medanta Medicity Hospital, Gurgaon

Particulars	Change	Pay Wts	Net Impact
Medical Management	20%	40%	7.92%
Surgical Management	7%	60%	4%
Net Impact		100%	12%

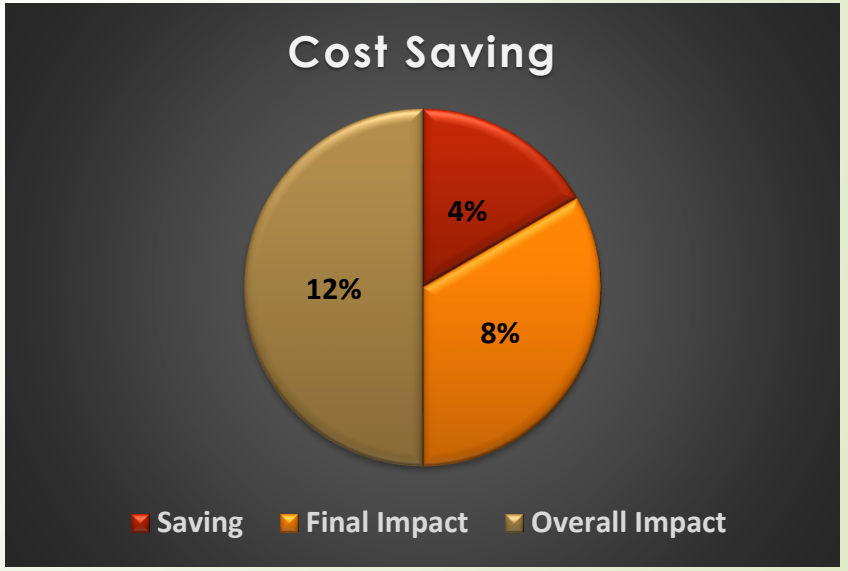
Medical Management	Wtd Avg Var
Room Rent (incl. Nursing Charges)	6%
Visit Charges	10%
Investigation Charges*	4%
Total	20%

Surgical Management	General Ward	Twin AC	Single AC
Variation In %	9%	9%	9%
Traffic	30%	30%	40%
Traffic Effective Change	3%	3%	4%
Net Impact	9%		
Wt.	80%		
Total Net Impact	7%		

Impact Scenario	
Overall Impact	12%
Medical Management	20%
Surgical Management	7%



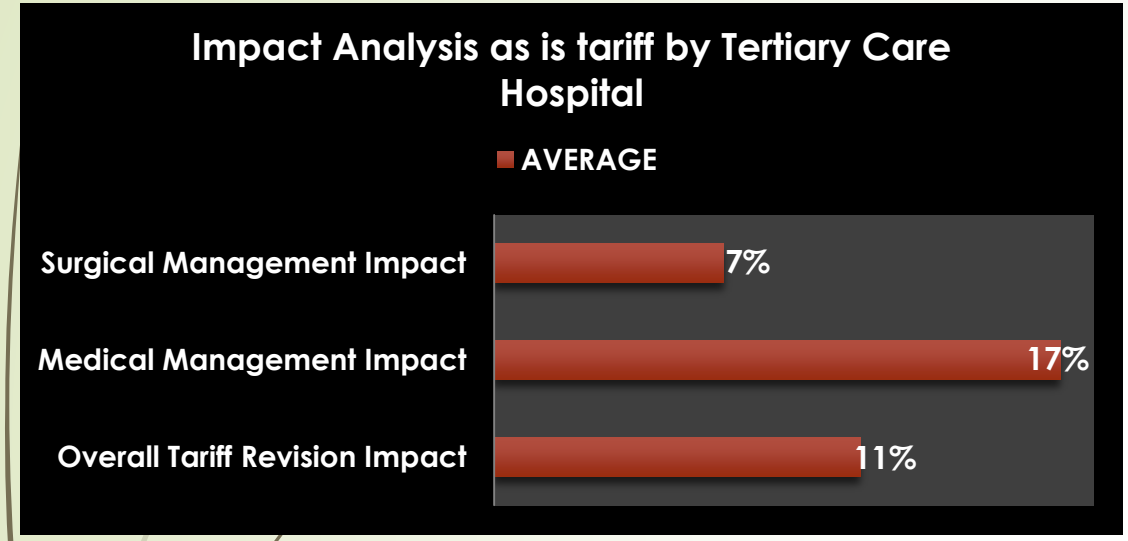
Old Discount	Current Discount	Actual Discount	Saving	Final Impact	Overall Impact
0%	Accepted with 8% discount on services excluding DCI and Implants	8% on 50% of bill	4%	8%	12%

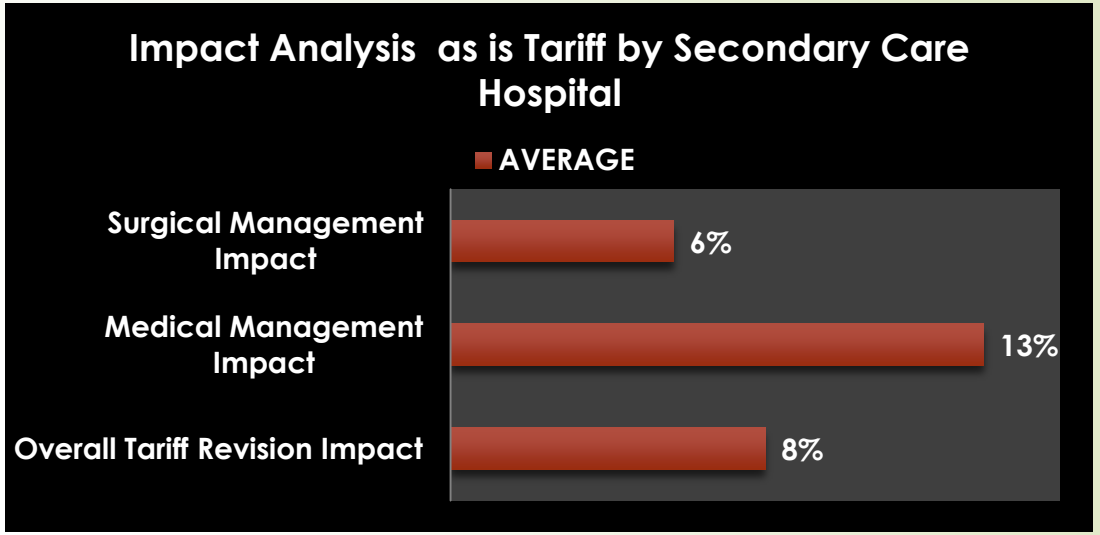


Overview: Data Analysis

- Impact by Tertiary Care hospitals as is Tariff Plans and Interpretation
- Impact by Secondary Care hospitals as is Tariff Plans and Interpretation
- Old Discount versus Agreed Discount Scenario

Impact Analysis as is Tariff Plans

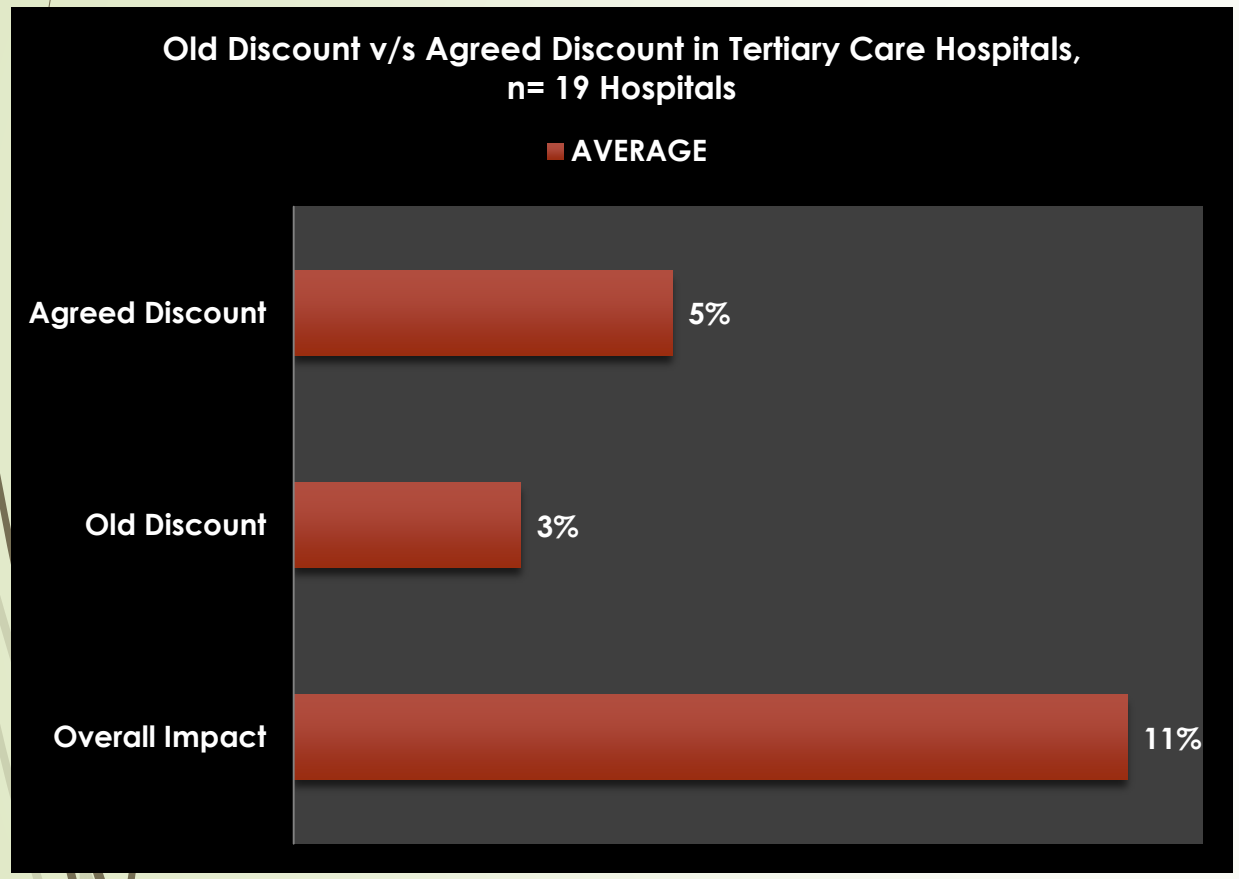




Interpretation: When SOCs were compared, in tertiary care hospitals, 11% of overall impact falls on the ABHICL claim ratio.
Major impact is through surgical management, ie; 17%, it shares the maximum share of the total claim amount.
Comparatively lesser impact is by medical management, ie; 7%

Interpretation: When SOCs were compared, in secondary care hospitals, 8% of overall impact falls on the ABHICL claim ratio.
Major impact is through medical management, ie; 6%, it shares the maximum share of the total claim amount.
Comparatively lesser impact is by surgical management, ie; 13%

Old Discount versus Agreed Discount for Tertiary Care Hospitals



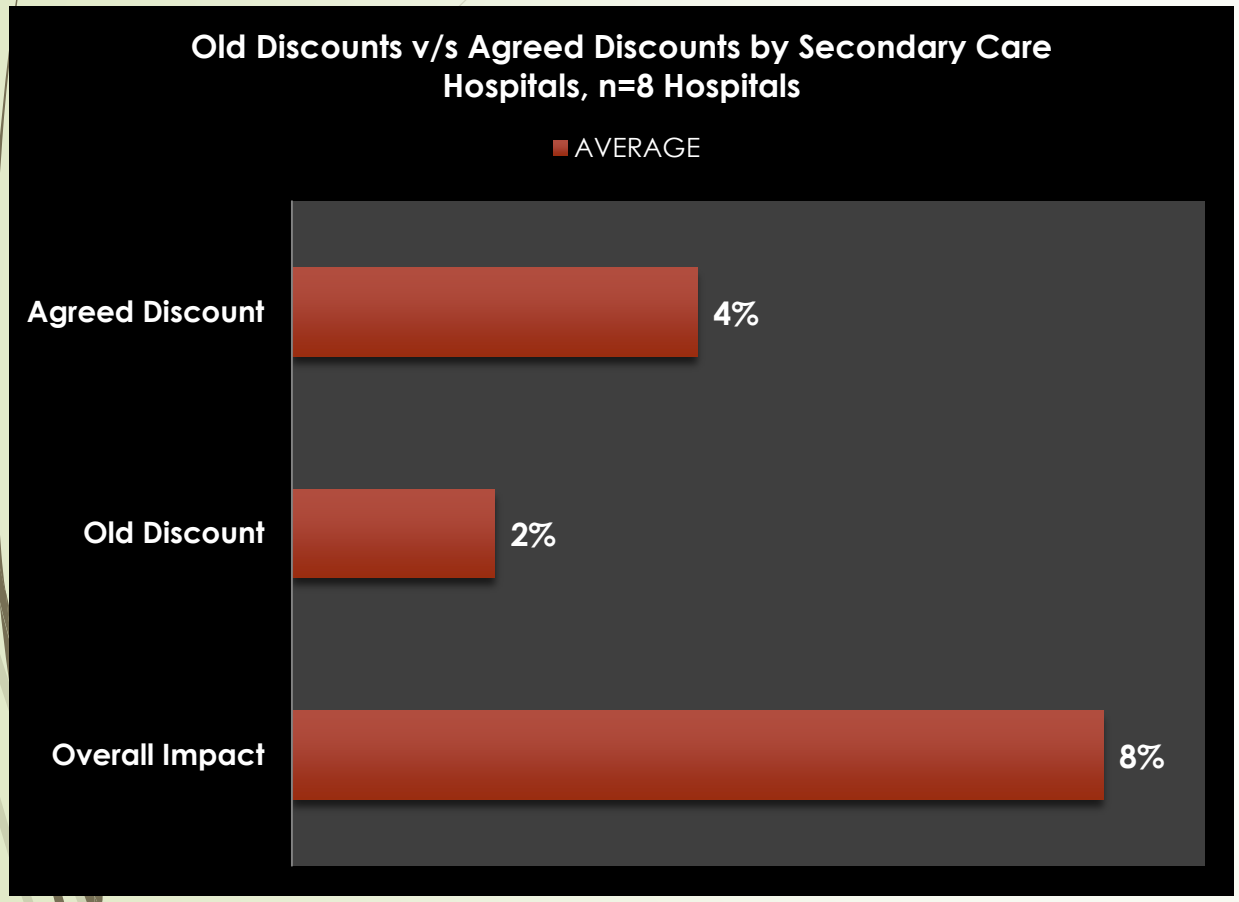
INTERPRETATION:

•When compared against overall impact, in tertiary care hospitals, generally the average discount is 3% that was promised by the hospital at the time of empanelment.

•It is very important to consider old discounts, this helps in negotiating for new revisions in the discounts with better deals.

•After implementing cost saving strategies, average discount agreed by tertiary care hospitals was 5% excluding the basic expenses such as drugs, consumables, investigations and implants.

Old Discount versus Agreed Discount for Secondary Care Hospitals



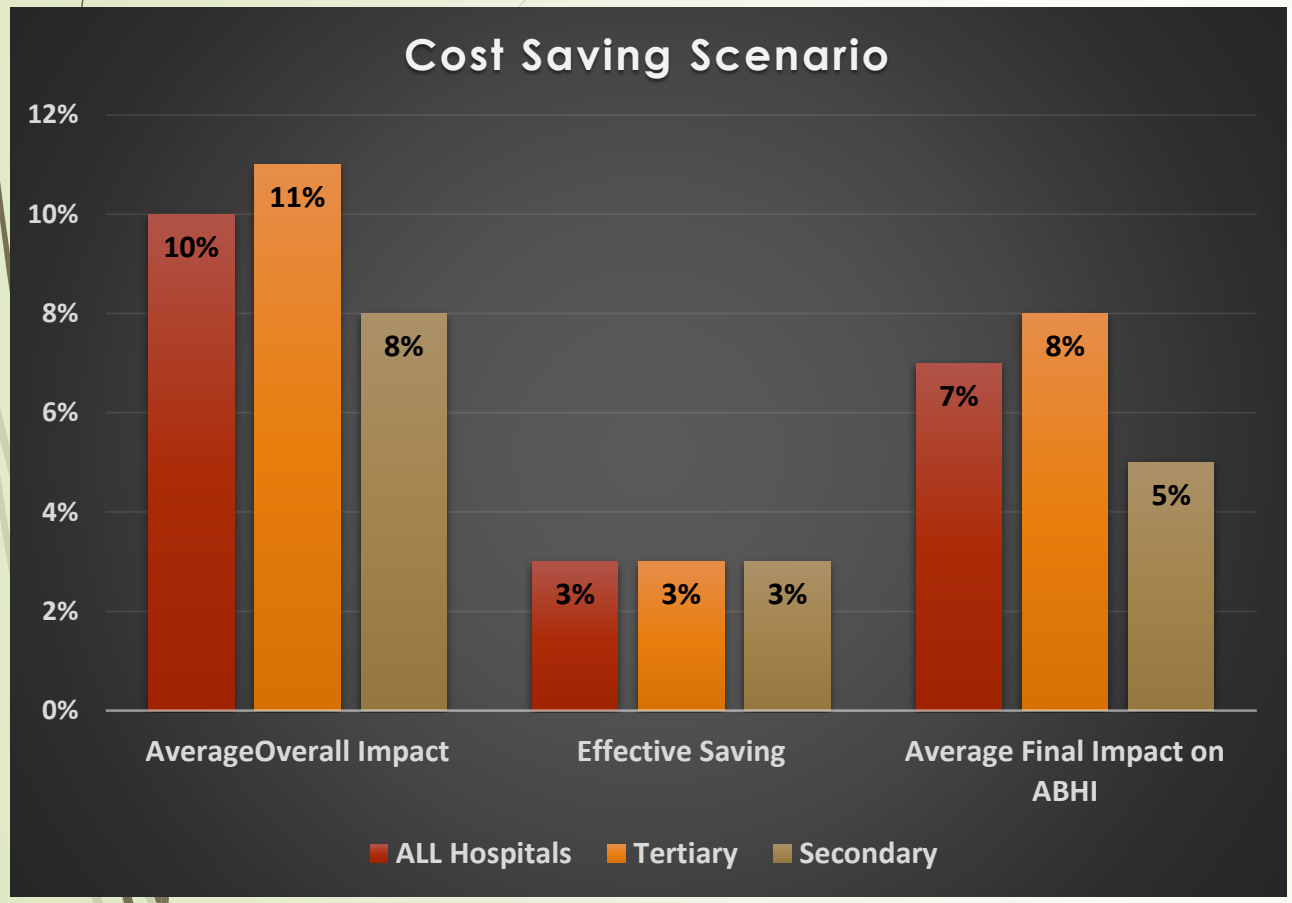
INTERPRETATION:

•When compared against overall impact, in secondary care hospitals, generally the average discount is 2% that was promised by the hospital at the time of empanelment.

•It is very important to consider old discounts, this helps in negotiating for new revisions in the discounts with better deals.

•After implementing cost saving strategies, average discount agreed by secondary care hospitals was 4% excluding the basic expenses such as drugs, consumables, investigations and implants.

Cost Saving Scenario



Cost Saving	ALL Hospitals	Tertiary	Secondary
Average Overall Impact	10%	11%	8%
Effective Saving	3%	3%	3%
Average Final Impact on ABHI	7%	8%	5%

INTERPRETATION:

•When those cost saving strategies were applied to hospitals in the last two months, above results were obtained.

•These strategies helped in saving considerable cost while negotiating with hospitals.

•Average of 3% cost was saved on the total bill amount payable in coming years.

•Final Impact on claim ratio of ABHICL was the difference of overall impact and cost saved by negotiations.

•7% was the final impact by all the hospitals analyzed, whereas 8% and 5% was the final impact by tertiary care and secondary care hospitals respectively.

Reasons to Develop Cost Negotiation Strategies

- No Standardization in rates of services delivered by hospitals.
- Professional Charges, Open billing rates of surgeries.
- Hospital Infrastructure, Equipments, Bed Strength, Location
- No market bench marking activity by healthcare providers.
- Expensive rates for Implants, Consumables
- Certified Hospitals such as NABH, JCI, ISO increase their rates of services

Results and Findings

- Request raised by hospital to regional team
- Request accepted by Regional Team
- Tariff received by Regional Team
- Forwarded to Central Operation Team
- Tariff is read with agreement provided & conditions
- Tariff is analysed by Central Operation Team
- Impact observed & discounts mentioned by Central Team to Regional Team
- Regional Team negotiates with the hospital for better deals & packages
- Hospital agrees to provide some discounts with approval
- This Discount is analysed with the overall impact & saving is identified
- This saving deducted from overall impact determines the final impact by hospital on ABHI

Developed Strategies for Negotiation

EARLY PAYMENT DISCOUNTS (EPDs): Additional discount to overall discount agreed

PACKAGES: Covering maximum discount including all professional fees, OT charges, etc.

LOCK IN PERIOD: Atleast 3 years, to manage inflation in market and serve on similar rates

GROUP HOSPITALS across country

REGIONAL MANAGERS TEAM:

Negotiates with high rates and lessen the terms and conditions attached to the agreed discounts by visiting the hospital

COST SAVING: to determine final impact on ABHICL claim ratio

THANK YOU