

# News release

## The Patient Protection and Affordable Care Act offers both opportunities and challenges for US health insurers, says Swiss Re report

New York, [27] February 2014 – The Patient Protection and Affordable Care Act (ACA) will bring fundamental changes to the way Americans access health insurance. Swiss Re's latest report, *The healthcare reform in the US: Key provisions and implications for health insurers*, offers a comprehensive overview of the opportunities this will present to American insurers, the challenges they will face and how insurers will need to adapt to meet them.

The most significant opportunity for insurers is simply the numbers of people who will come into the insurance system. The ACA contains a provision that every individual must be insured and according to the US Congressional Budget Office six million people will purchase health insurance through public health exchanges in 2014, rising to more than 25 million Americans by 2018.

"Along with increasing the number of insured people, the implementation of the ACA has the potential to drive major changes in the US healthcare system by encouraging a shift toward new, more efficient delivery and payment models," says Milka Kirova, Senior Economist and author of the report. "Pressures to contain healthcare spending growth on a broad scale will require health insurers to develop flexible business models and maintain lean cost structures."

The creation of public insurance exchanges is arguably the most visible example of how the distribution of insurance will change. Swiss Re's report discusses how this shift to a personal distribution mechanism will be important to corporate health schemes. This will mean clear opportunities for health insurers who can capitalize on the shift in focus from group coverage to individual coverage.

The report analyses how growth will pose challenges for insurers. One example examined in the report is how the influx of new insureds will create uncertainty in the risk profile of health insurers' risk pool. There is a lack of information about who will purchase coverage on the exchanges, and this has already made it difficult to set insurance rates. There is also fear that adverse selection issues will tilt the balance toward a less healthy insured population.

"The healthcare reform is changing the way insurance products and medical care are delivered," says Gary Nidds, Head of Medical Reinsurance US at Swiss Re. "The ACA impacts the risk profile of insureds for the entire healthcare sector, and in some instances completely alters traditional

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methods of underwriting and financing risk. Increased adverse-selection, limitations on medical underwriting, required benefits and minimum loss ratios are just a few examples. "

The report covers a broad range of other important issues regarding the impact of the ACA, including the role of new regulatory and accounting requirements, pressures to contain healthcare cost increases, how the so-called 3R's – reinsurance, risk corridors and risk adjustment rules – will protect insurers from ending up with worse-than-average risk pools, as well as the competitive situation for insurers across the various state exchanges.

#### **Notes**

Copies of *The healthcare reform in the US: key provisions and implications for health insurers* is available electronically on the sigma Expertise Publications section of Swiss Re's website: <http://www.swissre.com/sigma/>

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