Supervision of supplemental health insurance

I. Summary

Supplemental health insurance is a product that is very much in demand: About one million Swiss are insured for semi-private hospital rooms through supplemental insurance, and half a million are insured for private rooms.

Supervision of health insurance is shared by the Swiss Federal Office of Public Health (SFOPH, within the Federal Department of Home Affairs), which is responsible for mandatory health insurance, and the Federal Office of Private Insurance (FOPI, within the Federal Department of Finance), which is responsible for supplemental health insurance. Private insurers are entirely subject to supervision by FOPI, and health insurance schemes are subject to supervision by FOPI with respect to supplemental insurances.

In contrast to social insurance, the benefits arising from voluntary supplemental health insurance are not stipulated by law. Accordingly, the offerings are extremely diverse: Around 1000 products with a wide range of benefits and premiums are currently on the market: In addition to supplemental hospital insurance and insurance for complementary treatments, these include daily sickness allowances and dental insurance.

Since 1 January 2006, supplemental health insurance is the only sector alongside collective life insurance where the premiums and insurance contract terms and conditions are subject to approval by FOPI before they can be offered on the market. FOPI reviews whether the terms and conditions are in conformity with law and whether the premiums are within a range that ensures the protection of the insured parties from abuse and the solvency of the insurers. Premiums include all special rates (e.g. rebates, bones systems).

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Swiss Federal Department of Finance FDF
Federal Office of Private Insurance FOPI

Schwanengasse 2
CH - 3003 Bern
Tel. +41 (0)31 322 79 11
info@bpv.admin.ch
www.bpv.admin.ch

II. Supervision by the Confederation

Supervision of health insurance is shared by the Swiss Federal Office of Public Health (SFOPH, within the Federal Department of Home Affairs), which is responsible for mandatory health insurance, and the Federal Office of Private Insurance (FOPI, within the Federal Department of Finance), which is responsible for supplemental health insurance. Private insurers are entirely subject to supervision by FOPI, and health insurance schemes are subject to supervision by FOPI with respect to supplemental insurances.

1. The most important differences between mandatory health insurance contracts and supplemental health insurance contracts

Health insurance under HIL (Health Insurance Law)	***Supplemental insurances under ICL (Insurance Contract Law)***
mandatory social insurance	voluntary private insurance
compulsory acceptance	freedom of contract (acceptance not compulsory)
public law	private law
binding law	modifiable law (exception: binding provisions of the ICL)
standardized insurance coverage with individual options	insurance coverage freely negotiable between the parties, no legally mandated products
no premium differences between women and men, younger and older adults, healthy and sick persons	different rates according to risk groups (age, canton, gender, maybe others)
legal remedies according to social insurance law	legal remedies according to private insurance law

2. Number of insured persons, premiums, and claims payments

a) Private hospital rooms

Year	**2005**	**2004**	**2003**	**2002**
Number of insured persons	472,917	466,512	501,648	523,980
Premiums (in 1000 CHF)	1,062,060	1,064,537	1,060,921	1,117,582
Claims (in 1000 CHF)	887,698	888,710	885,100	924,835

The premiums are used to fund claims as well as the administrative costs and increases in technical reserves of the insurance company.

b) Semi-private hospital rooms

Year	**2005**	**2004**	**2003**	**2002**
Number of insured persons	1,000,651	1,014,637	1,089,241	1,056,682
Premiums (in 1000 CHF)	1,481,966	1,510,614	1,475,021	1,603,162
Claims (in 1000 CHF)	1,074,749	1,064,820	1,070,821	1,142,726

The premiums are used to fund claims as well as the administrative costs and increases in technical reserves of the insurance company.

II. The supervisory activity of FOPI

1. Diversity of products

In contrast to social insurance, the benefits arising from voluntary supplemental health insurance are not stipulated by law. Accordingly, the offerings are extremely diverse: Around 1000 products with a wide range of benefits and premiums are currently on the market: In addition to supplemental hospital insurance and insurance for complementary treatments, these include daily sickness allowances and dental insurance.

2. Review of insurance products

Since 1 January 2006, supplemental health insurance is the only sector alongside collective life insurance where the premiums and insurance contract terms and conditions are subject to approval by FOPI before they can be offered on the market. FOPI reviews whether the terms and conditions are in conformity with law and whether the premiums are within a range that ensures the protection of the insured parties from abuse and the solvency of the insurers. Premiums include all special rates (e.g. rebates, bones systems).

a) Solvency protection

To verify whether a premium secures solvency, FOPI reviews whether and to what extent the insurance company can cover its expenses (claims payments, administrative costs, and endowment of the necessary technical reserves) with the premium charged. Should this not be the case, the insurer would have to draw from its equity capital to cover claims, which could threaten the solvency and therefore the survival of the insurer. To prevent this, FOPI does not approve rates that are insufficient. Irrespective of this, an insurance company must at all times hold the requisite reserves and equity capital.

b) Protection from abuse

Along with their premium applications, the insurers submit statistics to FOPI on the development of claims payments in recent years and in the coming year, of administrative costs, and of claims reserves. On this basis, FOPI determines whether an application for a premium increase is justified. The law considers premiums exceeding a certain threshold to be abusive. For FOPI to approve a premium, the rate must exhibit a plausible, traceable relationship to the risk and cost development. This approach excludes arbitrary premiums as well as abusive premiums. The same applies *mutatis mutandis* to the review and approval of rebate systems that are applied to a rate.

3. Closed pools of insured persons and price control

Closed pools of insured persons are pools that are not open to new insured persons. They may come about if an insurer introduces a new product that is better suited to a changed market. This results in a continuous increase of the average age of the remaining insured persons, leading to higher benefit payments and accordingly to higher premiums, which some insured persons may no longer be able to afford. Some insurers have, of their own accord, offered insured persons the option of transferring from closed pools to equivalent open pools for new products. Beginning in 2006, all insured persons in closed pools benefit from the new supervision law, which permits them to switch to analogous open pools of the same insurer. FOPI may have a cushioning effect on premiums by requiring insurers to reduce their rate proposals, by denying approval to rate proposals for certain products, or by preventing that excessive rate increases are imposed on small insured pools that by chance happen to have higher claim burdens.

Since, due to their age, older insured persons are hardly able to switch to a different insurer, they must either accept premium increases or cancel their insurance. In such cases, the lack of competition leads to a market-dominant position of the insurer according to the Price Control Act. FOPI therefore refers rate proposals with premiums exceeding a certain level of increases to the Price Controller. The Price Controller may issue a recommendation. If FOPI does not follow this recommendation, it justifies its differing decision in the approval order.

III. Cancellation of contract with and without premium increase

Insured persons affected by a premium increase have the right to cancel the insurances in question within the period specified by the insurance contract terms and conditions, as a rule within 25 to 30 days of receipt of the notice, effective the end of the calendar year. This rule also applies if the increase is due to a change of age groups. An exception to this rule often applies in cases in which the higher premium is due to a change of residence. In contrast to mandatory health insurance, private supplemental health insurance is not subject to an acceptance requirement: An insurer has the right to reject an applicant without giving justification. It is therefore recommended to cancel insurance only once an offer by another company has been made.

As long as premiums remain unchanged, supplemental insurances may as a rule be cancelled effective the end of the year, subject to a three- to six-month cancellation period; multi-year contracts, however, may only be cancelled as of the end of the last year of the contract term.

IV. Frequently-asked questions concerning supplemental health insurance

1. The contract

Do I have to conclude my supplemental insurances with the same insurer as the basic insurance?

No. These are different insurance contracts that may be concluded independently of one another.

What advantages and disadvantages are there if basic and supplemental insurance are bought from two different insurers?

A disadvantage is that the insured person must always ascertain which insurer pays a bill. A financial advantage may be the freedom to transfer the basic insurance to a less expensive insurer.

Are there requirements concerning the term of the contract?

No; the insurer and the client agree on the term of the contract. Terms between one and five years are usual. The contact is automatically renewed if the insured person does not cancel it within the cancellation period.

Are there benefit requirements, or is the insurer free to design the product?

The ICL does not lay down any benefit requirements with respect to health insurance. The health insurance schemes are therefore free in principle to design their products. However, the absolutely and relatively binding provisions of the ICL (see articles 97 and 98) must be respected in developing the products.

Are time-unlimited exclusions of certain pre-existing conditions allowed?

Yes; but they must be clearly indicated in the contract documents.

Is it possible maintain different generations of insurance contract terms and conditions in parallel?

Yes. However, the insured person has the right according to article 35 of the ICL to continue the contract under the new conditions upon request.

2. The premiums

Does FOPI publish the premiums of the supplemental insurances?

No, for two reasons:
About 1000 products with a wide range of benefits are on the market. Indications of premiums without information on the benefits would only be of limited value. In addition, the supplemental insurer is free to conclude a contract with an interested party or not; only basic insurance is subject to compulsory acceptance. A table of premiums would therefore only be a limited decision aid for choosing an insurer.

If the premiums for basic and supplemental insurance continue to rise, I will not be able to afford them. What options do I have to reduce the premiums?

By raising the deductible (annual share of costs borne by the insured person himself or herself), the premiums for basic and supplemental insurance are reduced. Other options are a reduction of benefits, such as switching from private room coverage to semi-private room coverage, or from semi-private coverage to the general division “throughout Switzerland”. Since the supplemental insurances are not mandatory, they may also be cancelled without substitution.

May the supplemental insurer raise the premiums if I conclude the basic insurance with a different insurer?
Some supplemental insurers only grant rebates for supplemental insurance if the basic insurance is also concluded with them. Imposing administrative fees or minimum premiums is also allowed if no basic insurance is included. Advance clarification from the supplemental insurer is recommended.

May premiums be adjusted during the term of a contract?
Yes, if so provided by the terms and conditions of the insurance contract, which is usually the case. Such premium adjustment clauses are allowed by FOPI for reasons of securing solvency. The premium adjustment clause provides that the insured persons must be informed in a timely manner (25-30 days) before entry into force of the premium adjustment. If the insured persons do not agree to the premium adjustment, they have the right to cancel the contract; cancellation is governed by the applicable rule in the terms and conditions of the contract. If the insured person does not make use of this right, the adjustment is considered to be accepted. Any change in rate must be submitted for review by FOPI prior to entry into force.

3. Amendments to the contract

May an insurer cancel my supplemental insurance if I cancel my mandatory basic insurance with that insurer and conclude it with a different insurer?
No. A cancellation of the supplemental insurance on these grounds is expressly prohibited by law.

May an insurer cancel a contract in the case of a claim?
Almost all insurers waive this possibility in the terms and conditions of the contract, although the ICL grants both contracting parties the right to cancel. The terms and conditions of the insurance contract are binding. In any event, the insured person has the right to cancel in the case of a claim, at the latest when the indemnification is paid.

My insurer is offering me a more modern product instead of my existing insurance. Do I have to accept it?
The express consent of the insured person is required for the conclusion of a new product. If the insured person does not give this consent, the insurer must continue the contract under the existing conditions.
An exception applies in cases where the insurer revises its existing products by amending the terms and conditions of the contract. The insurer may offer existing insured persons to continue their existing insurance under the new conditions. As long as the new conditions are not disadvantageous to the insured persons, the insurance is considered to be accepted, unless the insured person expressly rejects the new conditions. In the case of new products, or if a revised product contains changes for the worse, the consent of the insured person is always required for the conclusion of the contract to be valid.

May an insurer change the scope of the insured benefits?
As a rule, no, since contract amendments in the area of private insurance require the express consent of both contracting parties. The sole exceptions are the terms and conditions of the contract that concern a change to the circle of service providers (e.g., hospital lists) or forms of therapy and new medical developments, as well as clauses providing for necessary amendments to the supplemental insurance if the legal catalogue of benefits for basic insurance changes. As in the case of premium adjustments, the insured person again has the right to cancel. These exceptions allow for an ongoing, simple adjustment to medical developments. Additionally, the insurer may influence the service providers in this way to secure the quality of the services, for instance, or to counter excessive fee demands. The amount of the premiums must always be justified by the scope of the insured benefits. FOPI considers farther-reaching contract amendment clauses to be impermissible, such as clauses by which the insurer would reserve the right to unilaterally reduce benefits that are secured by contributions (daily allowances, maximum amounts, etc.).