

Smaller, more focused insurers earning profits in new market

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"Success and Failure in the Insurance Exchanges," a *New England Journal of Medicine* Perspective article released today, examines whether the financial struggles of some major insurers under the Affordable Care Act (ACA) reflect a policy failure that should be addressed via repeal or reform, or a mismatch of these firms' capabilities and strategies to a newly created market.

The authors - Craig Garthwaite, Ph.D., Kellogg School of Management at Northwestern University, and John Graves, Ph.D., Vanderbilt University Medical Center- estimated that the number of insurers offering plans on the exchanges fell by nearly half between 2016 and 2017. Yet the authors also show that "patterns of market entry and exit are consistent with natural competitive pressures separating out firms best suited for success" in the ACA's nascent markets.

As compared to competitors in the same geographic area, insurers leaving the ACA's markets in 2017 offered plans with an "unappealing combination of smaller provider networks and higher premiums." Those that remained, as well as those that entered the market in 2017, had more experience managing the health of low-income consumers in the Medicaid program.

"Anecdotal evidence supports the argument that the skills of particular insurers may not have been well suited to these marketplaces," the authors wrote. "Many of the exiting firms ... have primarily covered enrollees in the self-insured-employer market, in which insurers provide

administrative services and are not primarily responsible for bearing actuarial risk or for developing products targeting low income consumers."

Smaller and more focused insurers are earning profits in the new market and are "aggressively entering new geographic areas," the authors reported.

"The objective in creating the insurance marketplaces was to facilitate competition among [insurers](#), not to guarantee financial success," said Graves, assistant professor of Health Policy in the Vanderbilt University School of Medicine. "While we remain supportive of additional reforms to shore up the ACA's marketplaces, we hope our results remind policymakers that highly publicized news of market exits is a poor and probably inaccurate signal of a failing market."

"While national firms have complained loudly about their struggles in this marketplace, we note that no firm is guaranteed success in a new [market](#)," Garthwaite said. "Our results show that firms with assets and capabilities that were amenable to the ACA marketplaces are those who remained, while those with skills best suited to other types of insurance markets exited. Far from a sign of failure, this is how competitive markets are intended to work."

Provided by Vanderbilt University Medical Center

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