Fee guidelines for healthcare helpful, but won’t curb costs

Chiu Yu Ko
For The Straits Times

Are fee guidelines necessary for transparency in the medical market?

In 2017, the Singapore Medical Association (SMA), with the support of the Ministry of Health (MOH), issued fee guidelines to address public complaints of over-charging by medical providers. The main goals of the guidelines are to provide greater transparency on healthcare costs and allow patients to make informed choices. In 2021, the Competition Commission of Singapore ruled that the guidelines were harmful to market competition. However, as medical costs and insurance premiums skyrocketed over the past few years, the Health Insurance Task Force (HITF) recently called for the reintroduction of guidelines.

Before considering the merits of fee guidelines, it is crucial to understand two salient features of medical markets to justify government intervention in the market. First, patients have to incur high costs to look for alternative providers. Second, even if they find alternatives, it is difficult to make comparisons between providers.

The first feature is called search friction by economists. Researchers have shown that minor frictions could have enormous impacts. Peter Diamond, winner of the Nobel Memorial Prize in Economics in 2010, expounded that even if there are a number of otherwise identical stores, search friction can lead to high monopoly prices, not low competitive prices. If consumers think every store charges the same price, then they will figure there is no point in visiting another store. Yet, when consumers do not search, stores will charge the monopoly price.

The second feature is known as the hold-up problem. The medical process involves a high degree of uncertainty in early stages, in that it is impossible to tell what treatments will be needed. Moreover, switching to another provider after starting treatment is extremely costly.

In some sense, as the saying goes, “patients are at the mercy of their doctors.” Patients are generally much less informed than the providers and are, therefore, unable to assess the feasibility and effectiveness of treatments proposed by providers.

Although it is hard to assess the degree to which the absence of guidelines has caused fees to rise, there is no doubt that guidelines are helpful in highlighting excessive pricing. However, fee guidelines alone could be counterproductive in containing rising costs in the long run. It is likely to charge based on guidelines, there will be less competition among providers; instead this facilitates tacit collusion. Eventually, consumers would be the losers.

Therefore, fee guidelines are not sufficient for the medical market. Taking the two salient features of medical markets into account, we may consider the following three recommendations that are aimed at enhancing fee transparency as well as comparability.

First, historical fees should be made available in addition to fee guidelines. On the one hand, transparency of actual fees charged can minimise the risk of collusion. On the other hand, the market is subject to less search friction when patients are aware of the historical fees beforehand, and higher fees are explained clearly by providers.

Recently, the Ministry of Health (MOH) has started publishing operation fees for private hospitals, which has been shown to help patients make informed decisions. Second, patients should be provided with a user-friendly system (for example, a mobile app) that clearly shows the reference fees. Research in behavioural economics shows that people are discouraged by having to study all the relevant information to arrive at the effort required is minimal.

Given the power of big data from MOH, hospitals, and insurers, patients readily make comparisons between providers.

Third, insurers should share medical expertise, bargaining power, and market knowledge with patients. In the HITF proposal, insurers are encouraged to adopt a “pre-approval” framework and set up a panel of preferred providers with fee agreements. Before pre-approval, patients could receive an expert opinion on the necessity of the treatment and the reasonableness of its cost. Patients can leverage the bargaining power of insurers, and keep the cost low by visiting the providers within the panel. Those who want to can negotiate, fees rate with the providers outside the panel.

To sum up, fee guidelines are helpful in highlighting excessive bills, but are not sufficient to curb costs.

Stopinion@sph.com.sg

* The writer is assistant professor at the Department of Economics at the National University of Singapore. This is a monthly series by the NUS Department of Economics. Each month, a panel will address a topical issue. If you have hot questions in economics, write to stopinion@sph.com.sg with “Ask NUS” in the subject field.