CHAPTER-16

FINANCIAL PERFORMANCE OF SELECT HEALTH INSURANCE COMPANIES IN USA: A COMPARATIVE ANALYSIS

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INTRODUCTION

The health insurance sector is continually navigating through a dynamic environment, contending with the impact of external market forces that challenge its stability. In the current landscape of the United States, the health insurance market relies on investments and mergers to sustain and implement growth strategies. The feasibility of a merger is contingent upon investors perceiving robust financial returns. Simultaneously, consumers are acutely aware of the significant influence of financial factors such as out-of-pocket (OOP) costs, which have emerged as pivotal criteria for choosing a health plan [1]. Therefore, conducting a thorough financial evaluation and analysis of a company's business operations provides a comprehensive overview of its performance and future prospects. This information benefits three key stakeholders: the company itself, potential and existing investors, and the end consumer. The examination of the 2012 Medicaid Managed Care Health Plans Financial Performance study delved into the underlying factors contributing to lower medical costs by employing ratio analysis and scrutinizing the financial data of the selected product lines. The study provided valuable insights into spending patterns, profit generation potential, resource utilization, and opportunities for business process improvement through thorough analysis of financial data. Additionally, a 2015 survey conducted by Deloitte focused on Value-Based Care (VBC) strategies, market conditions, and influencing factors among 15 health plans. Survey respondents expressed their belief in payment innovations, collaborations with providers, and strategies for engaging patients as key drivers for adopting and transitioning to VBC. Executives emphasized that a shift towards a model where providers assume responsibility for cost and quality is crucial for future profitability and sustainability [2,3].

RESEARCH OBJECTIVES

1. To assess the level of comparability among the five chosen health insurance companies concerning their served customer base and the range of services offered.

2. To analyze and compare the financial performance of the selected five health insurance companies spanning five consecutive financial years (2014 to 2018).
3. To examine and understand the strategic options adopted by the companies based on the evaluation of their performance.

RESEARCH METHODOLOGY

A descriptive cross-sectional study design was employed for this research, utilizing secondary data sources to conduct a financial statement analysis through ratio analysis. The study focused on five selected health insurance companies, spanning a period of five consecutive financial years. The nature of the data collected was predominantly secondary, involving a systematic search for key terms related to the study, such as "Ratio analysis for health insurance" and "financial statement analysis + health insurance + USA." The search was conducted through various mediums, including databases, financial analytic platforms, articles, journals, trade platforms, and analyst reports, with a specific time filter covering the past five years. The sampling design adopted a judgment sampling technique, selecting health insurance companies from the top 10 list in the USA. Parameters considered for selection included product segmentation, revenue, and services provided. The study was conducted over a period of three months, from February 2019 to May 2019.

RESULTS & DISCUSSION

The examination of the aforementioned data indicated that UHG had the highest current ratio, suggesting a sufficient amount of working capital and making it an attractive investment option. From a customer perspective, it was inferred that the company might find it easier to cover claims expenses even if they exceeded premium earnings, given the available working capital. Further scrutiny of Cigna's balance sheet uncovered high cash coverage and appropriate debt levels, signaling efficient management of borrowings. However, the low liquidity observed could potentially raise concerns regarding asset management when viewed from an investment standpoint in the company. With the

exception of Cigna Corp., all other companies fell within a comfortable range of current ratios.

CONCLUSION

The analysis of business performance through financial metrics has allowed for the assessment of comparability among the five chosen health insurance companies. The results highlighted that United Healthcare Group (UHG) exhibited the highest revenue Compound Annual Growth Rate (CAGR) and the largest market share, despite having a modest enrollment CAGR compared to the other companies under consideration. UHG also reported a relatively low Medical Cost Ratio (MCR) and the highest current ratio, suggesting efficient utilization of monetary resources. The decreasing trend in the solvency ratio indicates a preference for financing through equity rather than debts. Additionally, UHG demonstrated one of the highest efficiency ratios, implying the company's management efficiency in generating 1.5 times earnings for every asset investment. Moreover, it holds the second-highest valuation of company stock, following Humana Inc.

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