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DKV Group: Truly Interested in You

Miguel Martín entered the headquarters of the DKV[1] Group, the Spanish branch of the insurance giant Munich Health and the fourth largest health insurance provider in the country. The state-of-the-art building, decorated with water and nature motifs, seemed to welcome him with its pleasant and calming atmosphere. However, as deputy general manager of the DKV Group, at its Department of Communications and Corporate Responsibility, Martín had a crucial day ahead of him.

The Executive Committee was going to review the results of the Trust Plan (Plan Confianza), the strategic plan that had guided the DKV Group between 2011 and 2015 and that had transformed the way the company operated at all levels. It was a plan that CEO Josep Corbera had advocated and it had put Martín's department at the center of the company's decision making.

The Trust Plan had a simple motto: *truly interested in you*. It aimed to ensure that wherever DKV was in contact with anybody (a customer, an employee, an insurance reseller, a doctor treating someone insured by DKV, etc.), the company would create the best possible experience, with the best possible outcome. This included DKV's relationship with society at large, as the company aimed to make a positive contribution to the community.

And the results were there. In 2014 the DKV Group had achieved EFQM[2] 500+ Certification, one of the highest acknowledgments of business excellence. It had come sixth in the GPTW[3] ranking. Dénia Hospital, which the company jointly managed, had become the first European recipient of the HIMSS[4] Davies Award, which recognized excellence in healthcare.

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[1] DKV: Deutsche Krankenversicherung.

[2] EFQM: European Foundation for Quality Management.

[3] GPTW: Great Place to Work.

[4] HIMSS: Healthcare Information and Management Systems Society.

This case was prepared by Professor Xavier Oliver and Isaac Sastre, case writer, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. June 2016.

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And there was more: the work of the DKV-founded Integralia Foundation, which employed people with disabilities in the company's customer care, meant that 22% of the DKV Group's workforce was made up of employees with disabilities, the highest proportion of any Spanish company. Even the building that Martín was now rushing through – Torre DKV (DKV Tower) in Zaragoza – had been fitted with the latest advances in efficiency and sustainability, in order to reduce energy consumption and waste and increase employee comfort. The motto "truly interested in you" permeated almost everything that the company was doing.

"But does that help us sell insurance?" was a question that had been asked quite a few times. Indeed, not everybody at the DKV Group was convinced of the company's new direction. And not all parts of the company had been equally permeable to the shift brought about by the Trust Plan and by management through reputation. The debate within the Executive Committee would be spirited. Ultimately, a new strategic plan would emerge from these meetings. It was Martín's aim to convince the Executive Committee that the DKV Group was on the right path and that it had to become even more "truly interested in you."

The Old Way of Doing Things

DKV was a fairly new brand in the crowded Spanish insurance market. The DKV Group's parent company, the German-based DKV AG, purchased the Spanish insurer Previasa in 1998 to use it as a launchpad to enter the Spanish market. The new company brought many faces from outside the insurance industry. The new CEO had started his career creating and managing an NGO in Africa and had gone on to develop a background in hospital management. He brought new ideas and new people. When Martín joined DKV, he knew very little about the insurance industry – his background was in journalism. The fresh outlook these people brought to the company had been key in unleashing it from the old ways of managing an insurance company.

Health Insurance

Health insurance is insurance extended to individuals or collectives that would protect them against costs incurred when receiving medical treatment. In exchange for a monthly premium, an insurance provider would cover – partially or completely – expenses such as visits to a doctor, tests, and surgery. Insurance providers would finance these costs by distributing risk and pooling resources from all their customers, using their combined bargaining power to enter into deals with healthcare providers.

There were chiefly three kinds of health insurance in the Spanish market:

- **Exclusive provider plans**: the insurance provider would maintain a network of doctors and other healthcare providers that the customer would be allowed to use (for free or with a copayment). The insurance company would pay doctors in this network preagreed rates in exchange for treating its customers. This was the most common form of health insurance.

- **Reimbursement plans**: the customer could go to any doctor, pay in advance the cost of the visit or treatment, and then ask the insurance company for reimbursement. This form of insurance was popular among customers who had to travel abroad, customers

who lived in areas with few doctors to choose from, and those who wanted to keep visiting certain doctors they trusted.

– **Mixed plans**: these would combine the features of the previous two types. For example, a plan could feature a network of healthcare providers at a reduced cost while still allowing visits to off-network doctors, at a higher cost for the customer.

Insurance could be sold that covered all kinds of medical treatment or just certain specialties (e.g., dental insurance or maternity insurance). Plans would differ mainly in terms of the monthly premium paid, the amount of treatment covered, the extent of the doctor and hospital network covered by the plan (for exclusive provider plans), and the existence and amount of copayments and deductibles (parts of the treatment cost that had to be incurred by the customer). More expensive plans would offer higher coverage and/or smaller copayments and deductibles, and cheaper plans the reverse.

Insurance was sold by brokers, who generally worked on a commission basis. Brokers were exclusive or nonexclusive, depending on whether they were contracted to sell a single company's insurance products or whether they worked independently and sold the products of several insurers.

The Spanish Insurance Market

By 2014, the health insurance industry in Spain had become a very crowded marketplace and a €7 billion industry. (See **Exhibit 1**, Health Insurance Market in Spain.) The top five providers – which included DKV – accounted for nearly 72% of the market but there were more than 50 insurance providers. Although the DKV Group also sold other kinds of insurance (life, accident, home, burial, and income protection), in 2014 healthcare provided 83.5% of the DKV Group's total premium volume of €685 million. Between 2011 and 2014, DKV had enjoyed the largest growth rate in the health insurance industry, at 7.38%.

Health insurance providers competed mainly on price and coverage, and they all tended to match each other's moves in these areas. As new forms of medical treatment appeared regularly, insurers quickly moved to include them in their coverage, in order to avoid falling behind their competitors. This resulted in an aggressive "feature race" between the different insurance providers. Martín recalled a particularly telling episode:

> "I remember getting drawn into a two-hour debate about, among other things, how many chiropody sessions our Integral plan should cover. Does our customer really care whether we allow for five, 10 or 20 chiropody sessions? How many of our customers even know what chiropody is?"[5]

Insurance providers generally paid 75% to 80% of all their premium revenue in claims, which meant that margins were generally slim. DKV, in particular, had an 81.1% claim ratio in 2014. Isabel Pastor, the brand manager, recalled how adding new coverage was often weighed against:

> "... things that would really help the people we insured, such as improving our helpline. But what mattered at that time was looking at what our competitors were doing, and then

[5] Chiropody is a medical discipline dealing with the care of the foot, in particular the treatment of corns, verrucae, and other skin or nail-related pathologies.