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Strategic pricing behaviors in the presence of consumer inertia: the case of health insurance

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Objectivos (Objectives): Health insurance provision in Switzerland is competitive. However, prices are very different for homogeneous products. This puzzle can be accounted for by consumers' low switching rates. From a theoretical point of view, in the presence of consumer inertia and asymmetric information, a loss-leader pricing strategy can be profitable, reducing competitive pressure.

Metodologia (Methodology): Empirically, we define loss-leaders in several (compulsory and supplementary) health insurance markets in Switzerland. Different firms have different loss-leaders, and most firms are present in at least one market where their prices are cheaper than their competitors. We then analyze, at the consumer level, the effect of buying a loss-leader supplementary product, both in terms of products bought and switching behavior.

Resultados (Results): Loss-leader pricing strategy seems to succeed in attracting consumers to insurance plans. As those insured are buying a supplementary insurance product, in our sample, they always buy their basic insurance product from the same firm. Furthermore, once consumers have chosen a loss leader product, they seem to be locked in as they are less likely to move to another firm for basic insurance.

Conclusões (Conclusions): We interpret this as evidence of a profitable loss-leader pricing strategy in the Swiss health insurance markets. Consumers don't respond optimally to price differences across firms.