The Analysis of the Private Health Insurance Market in Romania

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Abstract

Healthcare in Romania is mainly financed (around 75%) from public resources (government schemes and social compulsory health insurance), just less than 25% of total expenditure on health coming from other sources such as co-payments, informal patient payments and payments from other insurance companies. The paper aim is to analyze the evolution of the Romanian Voluntary private health insurance (VPHI) market in 2016-2018 period of time and, based on the indicators analyzed and on the opinions from literature, to provide explanations of the evolution and some ideas for future development.

Key words: financing health system**,** private health insurance
J.E.L. classification: G22, I13

1. Introduction

Voluntary private health insurance (VPHI) is the result of the demand coming from persons confronted with medical risks and the offer coming from insurers that mainly based on the insurance premiums award indemnization according to the medical plan agreed for the persons that have medical risks. Voluntary health insurance act on the base of a insurance policy, where all the conditions related to the insurance, the medical-sanitary institutions, the rights provided by the policy are presented.

Sagan and Thomson (2016) determine that "there is no country in Europe in which VHI is the only source of health coverage" (p. 29) In the European countries there is an important public financing of the health system, these countries offering access to health services for all or most part of the population as effect of the public financing.

Even so, not all financing of the health system is assured by public funds, a part of the financing coming from the private sources and one of the private source is represented by voluntary private health insurance.

There are different types of VPHI based on the purpose of the insurance (Done, 2012, p.12):

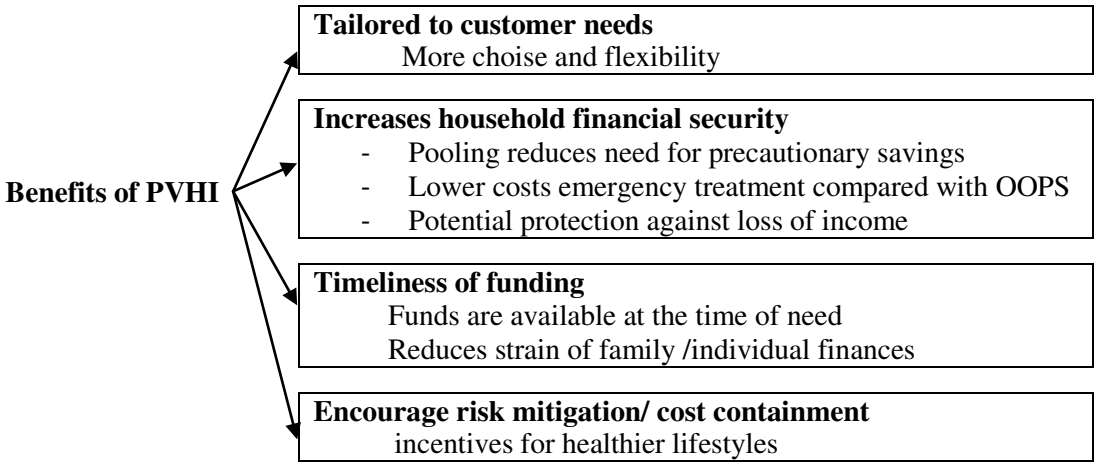
- primary, where PHI is the main mode for assuring the medical services of the persons;
- substitute, when the private health insurance is just a private alternative, giving access to the same services as the public one;
- supplementary, that is offering access to the medical services that are excluded from public coverage;
- complementary, that cover the payments that are owed by the insured because that are not covered by the public coverage or the co-payment owed by the beneficiary.

Private health insurance benefits both from the individual perspective and from the public system perspective.

From an individual perspective, private health insurance prevents the risk of a serious impact on the expenses of a family in case of a serious illness that requires substantial financial resources, by using the resources raised by insurer from all the insured to cover the expenses generated by the medical risk. Also, the coverage of the VPHI is more flexible, and by this, could be tailored easier to the insured needs, offering personalized insurance packages according to their risk profile. There are also opinions which suggest that by using VPHI, the insured also benefit from higher quality services or from reduced waiting time.

A synthesis on the role of VPHI is realized by Swiss Re (2015) and is presented by figure no. 1

Figure no.1. Benefit of Voluntary private health insurance

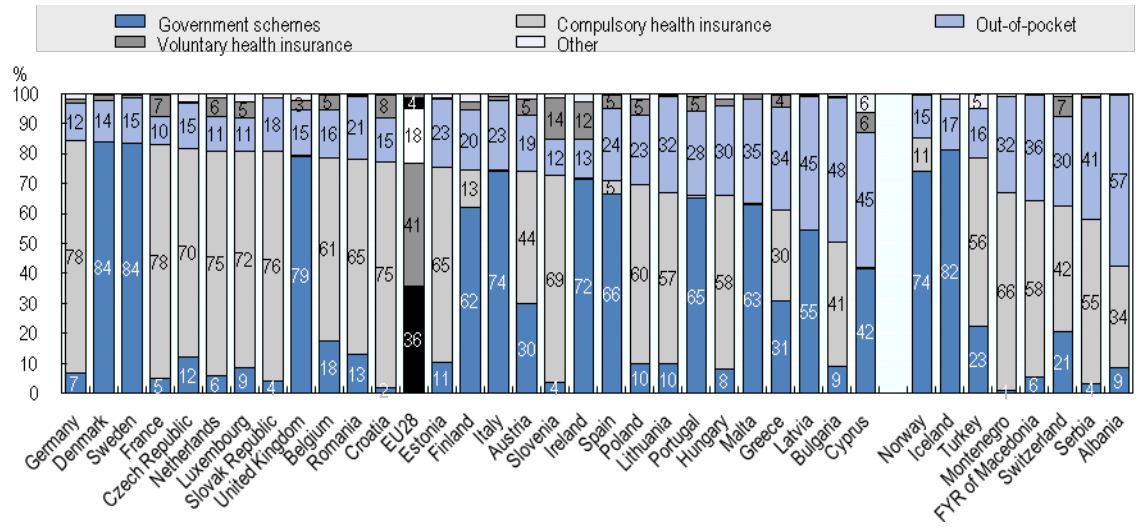


Source: The Geneva Association, Swiss Re, 2015

For the healthcare system VPHI is also beneficial because, in some cases, persons that need medical care that is not covered by the public system will not access the services needed in the absence of a VPHI because they do not have financial resources for that. In that cases, the existence of VPHI contribute to the financial sustainability of the healthcare system by relieving expenses.

Financing of the health system in Europe, as figure no. 2 show, reflects different situations: countries where government schemes are very high, countries where compulsory health insurance is the main source of financing, or countries where out-of-pocket money are very important. The situation reflected by the figure no. 2 show that there are countries where voluntary health insurance assure more than 10% of the health expenditures, but also there are countries where financing through voluntary health insurance is just marginal.

Figure no 2. Financing of the health system in Europe



Source: OECD/EU, 2018, *Health at a Glance: Europe 2018: State of Health in the EU Cycle*, OECD Publishing, Paris, [online] Available at: https://doi.org/10.1787/health_glance_eur-2018-en

As can be seen, healthcare in Romania is mainly financed (around 75%) from public resources (government schemes and social compulsory health insurance), just less than 25% of total expenditure on health coming from other sources such as co-payments, informal patient payments and payments from other insurance companies.

The possibility that some of the medical services could be financed through VPHI in Romania was introduced in 2006 by the legislation regarding the reform of the public health system. The law (in article 341) established that VPHI in Romania could be complementary (support the payment of the services that are not fully financial covered by public financing system) or supplementary (support the services that are not in the package of medical services covered by public financing system, the right to the second opinion, etc.).

Because of the importance of this mechanism, the law also establishes aspects that have to be put in the contract of VPHI (article 345 of the law): the list and the volume of covering the co-payments; the list of the services in the supplementary PHI; the list of the agreed providers; the way in which the contact of the agreed providers will be done; the rights and the obligations of the parties in the contract; the way in which the payments to the providers will be done; cases and modalities regarding the termination of the contract; modalities of dealing with litigations.

In an attempt to stimulate the VPHI market, the Romanian legislative stipulated in the Fiscal Code that insurance premiums for VPHI paid personally or by the employer are deductible form the income tax in the limit of 400 euro per year.

Studying the offer on the Romanian market, it is noticed a large range of services covered through VPHI, offering to the consumers multiple benefits and allowing them to tailor suficiently the policy coverage.

Generally, risks insured by private health insurance in Romania are:

A. Outpatient services - services for which hospitalization is not required and may include different types of services, with different coverage levels:

- medical consultations requested by the insured due to a medical necessity
- medical procedures and investigations required by the insured due to the medical needs accessed based on the recommendation of a general practitioner / specialist
- laboratory tests required by the insured due to a medical need accessed on the recommendation of a general practitioner / specialist
- other outpatient services: imaging services, recovery medicine, vaccines, reductions to outpatient medical services not covered by the insurance contract, inclusion in the contract (with the same risks covered) and dependent persons (the insured's family)

B. Hospitalization services

Hospitalization costs may include: administered medication, financial losses recorded during the convalescent period, medical investigations, etc.

The risk can only be covered if there is a minimum period of hospitalization caused by the same event (eg, min 2 consecutive days)

Depending on the products of each insurer, there may still be: allowances granted for surgery and birth)

The development of the market for private health insurance is also a stimulus for investments in the health sector in Romania, for the extension and modernization of the medical infrastructure. By this, VPHI contribute to the qualitative development of the medical services and to the retention in the national system of the Romanian doctors.

The paper aim to analyze the evolution of the Romanian VPHI market in 2016-2018 period of time and, based on the indicators analyzed and on the opinions from literature, to provide explanations of the evolution and some ideas for future development.

2. Theoretical background

The analysis of the private health insurance as a method of financing healthcare system was done by many authors, for different countries or group of countries and for different use of private health insurance (as substitute, complement or supplement). In the theoretical background there will be reviewed papers that generally analyze the voluntary private health insurance used as complement or supplement to the social medical care awarded by different government schemes or compulsory public health insurance.

Drechsler and Jutting (2007), discussing the role of the private health insurance in various developing countries, argue that the role of PHI vary with the economic, social and institutional settings in a country or a region. As the authors say, "whether PHI will gain a more proeminent role in Eastern Europe is above all a political decision" (Drechsler and Jutting, 2007, p. 515-516).

Most of the papers that question the VPHI problem analyze the purchaising behavior of VPHI or the medical services use. In a recent paper, Kullberg et al. (2019) studied the purchasing behavior of the Swedish population in the last years. Their findings show that about 15% of the population between 16 and 84 years have private health insurance. Because the insurance plans do not cover pre-existing medical conditions or chronic diseases, the specific weight is higher for healthier persons, but other factors like income or the political orientation matter. The motivation of buying VHI consist in „access to private health care providers, shorter waiting time as a result of waiting-time guarantee, assistance with care-coordination" (Kullberg et al., 2019, p. 745). Analyzing the situation of another nordic country (Denmark), Kill and Arendt (2015) investigate the impact of complementary PHI on the use of health care services. Their findings sugest that the impact is various for different medical services. In some cases (prescription medicine, dental care and chiropractic care) the impact is positive and significant, in other cases the impact is positive, but smaller (physiotherapy and general practice) or do not exist (the use of hospital-based outpatient). In a comparative study on the Nordic countries, Tynkkynen et al. (2018) suggest that even the VPHI market of all of the countries grow, the factors of influence are specific. The results show that for 3 of the countries (Denmark, Norway and Sweden) most of the voluntary health insurance policies are purchased by employers, but in Finland, that was more resistant to structural change of the public healthcare system, most of the VPHI policies are held by individuals, as a personal behavior to obtain better medical services. Also, their results confirm that time access to the medical services is an important factor of purchasing VPHI policies.

Artabe and Siguenza (2019) analyze the effect of the recession on the spending for HPI in Spain and find that the period of recession did not affect the contracting the PHI. They evidenced that the wealthier persons spend more on HPI, the future effects of this kind of behavior being negative for the quality and financial sustainability of the public health system.

Antohi and Cojocaru (2015), analyzing the financing mix of the healthcare system in Romania, show that "another important income source of the healthcare system is represented by the population's private expenditure" (Antohi and Cojocaru, 2015, p. 78), but the main category in that spending is represented by direct payments and not by the private healthcare insurance. In the authors' opinion, most important causes of this situation are the lack of fiscal stimulus for purchasing HPI and the lack of private suppliers.

3. Research methodology

The paper performs a literature review about health insurance importance and evolution in different countries and under various schemes, followed by a quantitative analysis of the market indicators evolution.

The indicators used for the analysis are characteristic for the insurance markets analysis:

- penetration rate of the insurance, calculated as ratio between insurance premiums and GDP, show the importance of the insurance market;
- density of the insurance, determined as ratio between insurance premiums and number of inhabitants, show the sums paid, as a mean, by one person for obtaining an insurance policy. The indicator is calculated in national currency/person, but it is also reflected in euro/person to permit international comparisons;
- written insurance premiums, claims awarded and number of contracts, as indicators that highlight the evolution of the market;
- claims ratio, calculated as ratio between claims and written premiums, as an indicator of "product value for clients" (IAIS, 2017, p. 5), reflecting how much of the written premiums return to the beneficiaries or insured persons.

The data used come from insurance and reinsurance annual reports issued by Romanian Financial Supervision Authority (FSA), and the National Institute of Statistics of Romania, statistics of European Insurance and OECD health statistics.

4. Findings

The importance of the VPHI market in 2016-2018 is studied by analyzing the evolution of voluntary private health insurance penetration degree and of density of the same insurance products. The value of the indicators are reflected in table no. 1.

Table no 1. Market penetration degree and density of private health insurance in the period 2016-2018

Indicators	2016	2017	2018
Gross premiums written on health insurance (mil. lei)	172,819942	208,645965	335,020775
GDP (mil lei)	765135,4	857895,7	944220,2
Health insurance penetration degree (%)	0,02%	0,02%	0,04%
Rezident population (mil. pers)	19,760585	19,643949	19,530631
Density (lei/inhabitant)	8,75	10,62	17,15

Source: INSSE (http://statistici.insse.ro:8077/tempo-online/#/pages/tables/insse-table - rezident population; http://statistici.insse.ro:8077/tempo-online/#/pages/tables/insse-table - GDP) and ASF (www.asfromania.ro Insurance and reinsurance market report, 2018)

As data in table no. 1 show, the VPHI market is not an important one in Romania, the penetration degree being much under 0,1%. In spite of that, analyzing the evolution of the market discover that both of the indicators that describe the market importance registered an ascending evolution. It worth to be noted that the health penetration degree improved from 0.02% (in 2016 and 2017) to 0.04% (in 2018) and the density, expressed in national currency, doubled in 2018 compared to 2016 (but the growth of the indicator expressed in euro/person is smaller).
In a comparison of the importance and evolution of the VPHI market in selected Central and Eastern European countries, Romania is situated on the bottom of the list, just Hungary (from the selected countries) registering smaller density and penetration. In a relatively similar position it is Poland, with the same penetration degree, but a little higer density of health insurance. With a relatively similar penetration degrre are Czech Republic (0,06%) and Estonia (0,05%), but the density is much higher. On the other hand, Slovenia register the highest density of health insurance and penetration rate from the selected countries.

Table no. 2 Evolution of the VPHI market in selected Central and Eastern European countries

	Density of health insurance (domestic market)			Penetration of health insurance (domestic market)		
Country	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**
Bulgaria	5.79	6.98	8.78	0.09%	0.10%	0.11%
Czech Republic	10.92	11.74	12.66	0.07%	0.06%	0.06%
Estonia	7.68	8.82	9.78	0.05%	0.05%	0.05%
Croatia	13.17	15.85	17.09	0.12%	0.13%	0.14%
Hungary	0.57	0.75	0.86	0.00%	0.01%	0.01%
Latvia	16.25	18.10	20.89	0.13%	0.13%	0.14%
Poland	3.79	4.22	5.64	0.03%	0.03%	0.04%
Romania	1.88	2.28	3.68	0.02%	0.02%	0.04%
Slovenia	238.09	249.54	264.86	1.22%	1.19%	1.19%
Slovakia	12.90	12.33	24.43	0.09%	0.08%	0.15%

Source: European insurance industry database, [online] Available at https://www.insuranceeurope.eu/insurancedata

So, even the density of private health insurance has doubled in 2018 compared to 2016, however, compared to the countries of the CEE, Romania is among the countries with the lowest density. These differences observed reflect to a large extent differences in national health and social security systems and the role of private insurers.

The evolution of the gross direct premiums written on private health insurance in 2016-2018 in Romania is evidenced by data in table no. 3.

Table no. 3 Evolution of Gross direct premiums written on private health insurance in 2016-2018

Gross direct premiums for	2016 - lei-	%	2017 - lei -	%	2018 - lei -	%
Total market (non- life and life)	9380935173	100%	9701743603	100%	10141233044	100%
Health insurance	172819942	1,84%	208645965	2,15%	335020775	3,30%
Non-life insurance	7711487926		7688478353		8042145685	
- of which health insurance included in non-life insurane	113381940	1,47% of non-life insurance	131876526	1,72% of non-life insurance	230012472	2,86% of non-life insurance
Life insurance	1669447247		2013265250		2099087359	
- of which health insurance included in life insurance	59438002	3,56% of life insurance	76769439	3,81% of life insurance	105008303	5,00% of life insurance

Source : ASF - Insurance and reinsurance market report, 2018

Analyzing the date, it can be seen that gross premiums written on health insurance had an increasing evolution. The increase of premiums in 2017 compared to 2016 is of 20.73% and in 2018 compared to 2017 is of 60.57%. This generated almost doubling the gross premiums written on health insurance in 2018 compared with 2016 (the increase is of 93.86%). Analyzing the structure of the insurance market and the importance of private health insurance on that, it can be observed that the health insurance share in total insurance market is small, reaching 3.3% in 2018. However, we note a slightly upward evolution of the health insurance share with 1,46% in 2018 compared to 2016. The voluntary health insurance policies are reflected in the statistical situations detailed on the components: some of the components are reflected as non-life insurance, but other as life insurance.

Analyzing the evolution of private health insurance on components, it can be observed that although the share of health insurance in non-life, respectively life insurance grow in 2016-2018 period, the component attached to non-life insurance is more than double (in absolute terms) in 2018 compared with 2016, and the evolution of the component attached to life insurance is ascending (in absolute values), but with a small coefficient of growth. As a result, over 65% of the gross written premiums in health insurance every year in the analyzed period are coming from health insurance associated with non-life insurance. But, because the Romanian insurance market is dominated by non-life insurance, the share of health insurance attached to non-life insurance (in the total non-life insurance) is smaller than the share of health insurance attached to life insurance (in the total life insurance).

A major explanation of the growth of gross direct premiums written on private health insurance is the growth of the number of contracts in the same period as reflected by data in table no.4

Table no. 4 Number of health insurance contracts in period 2016-2018

Health insurance contracts	2016	2017	2018
No of contract at the end of reporting period	231198	275904	365872
- Included in non-life insurance contracts	221913	265760	348699
- Included in life insurance contracts	8285	10144	17173
No. of new contracts issued in reporting period	271836	320329	427290
- Included in non-life insurance contracts	264323	316619	415673
- Included in life insurance contracts	7513	3710	11617

Source: ASF - Insurance and reinsurance market report, 2018

The number of contracts in force at the end of 2018 at the level of the entire health insurance market stood at 365872, being higher with 134674 than at the end of 2016 (a growth of 36,80%). Most of the contracts in force in 2018 (348,699, representing over 95% of the total number of contracts) are registered for health insurance included to non-life insurance, just 17173 contracts being attached to life insurance. This structural situation is valid also for 2016 and 2017. Looking at the evolution of new contracts, the structural situation is even more unbalanced, health insurance attached to life insurance being in 2018 less than 3% of the total new number of contracts. Such evolution, coroborated with the volume of the gross premiums written for health insurance components, reflect the fact that the mean premium for a contract of health insurance attached to life insurance is much higher than the mean premium for a contract of health insurance attached to non-life insurance

Even so, the evolution of the number of contracts in the last 3 years reflects a higher demand for health insurance. As suggested by Sagan and Thoson (2016, p. 54), the socio-economic characteristics of persons having VPHI in 2012 in Romania reflect the fact that these persons are generally under 50 years of age, better educated, have higher incomes, work in large firms or multinational and live mainly in urban areas. Based on that, some of the causes of such evolution could be the higher income of the persons as result of the economic growth or the fact that more employers offer to their employees as a benefit a private health insurance. Another factor of growth of the health insurance is the diversification of distribution channels: agents, brokers, banking institutions as well as training of insurance brokers on the terminology used in health insurance and on understanding the advantages and disadvantages of each health insurance product.

The growing number of contracts are associated with more medical problems, but also with clients that are more aware of the benefits employed by the VPHI. As a result, the value of claims also registered a growing evolution in 2016-2018 period as reflected by data in table no. 5

Tabel no. 5 Evolution of claims paid on health insurance in 2016-2018

Claims paid on (lei)	2016	%	2017	%	2018	%
Total market (non- life and life)	4311825389	100%	5075341698	100%	5941757119	100%
Non-life insurance	3601564195	83,53%	4076896562	80,33%	4915702278	82,73%
Life insurance	710261194	16,47%	998445136	19,67%	1026054841	17,27%
Health insurance	68373126	1,59%	104670974	2,06%	164564666	2,77%
- Included to non-life insurance	42955983	1,19% In non-life	72491600	1,78% In non-life	121749007	2,48% In non-life
- Included to life insurance	25417143	3,58% In life	32179374	3,22% In life	42815659	4,17% In life

Source: ASF - Insurance and reinsurance market report, 2018

As data show, the claims for health insurance increased from 68373126 lei in 2016 to 164564666 lei in 2018 (with more than 140% compared with 2016, and an increase higher than that of premiums in the same period of time). Looking at the structure of the claims between the components of health insurance, it can be seen that the biggest increase of claims is coming from health insurance attached to non-life insurance (from 42955983 lei to 121749007 lei) and less because of the health insurance attached to life insurance. This evolution could be explained by the fact that the persons who contract voluntary private health insurance prefer private clinics over state ones when it comes to Outpatient services, because they can choose in many cases service provider, have the possibility to call on a whole network of providers approved by the insurer in case of a medical problem or even can benefit from medical services in clinics outside Romania, if it has opted for such an insurance plan. But as a result of this options, the costs incurred by the insurer are generally higher, because some of the services are expensive in the private medical units.

Table no. 6 Evolution of claims ratio for health insurance

	2016	2017	2018
Gross direct premiums for health insurance	172819942	208645965	335020775
- of which health insurance included in non-life insurane	113381940	131876526	230012472
- of which health insurance included in life insurane	59438002	76769439	105008303
Claims paid on health insurance	68373126	104670974	164564666
- of which on health insurance included in non-life insurane	42955983	72491600	121749007
- of which on health insurance included in life insurane	25417143	32179374	42815659
Claims ratio for health insurance	39.56 %	50.17%	49.12%
Claims ratio for health insurance included in non-life insurane	37.89%	54.97%	52.93%
Claims ratio for health insurance included in life insurane	42.76%	41.92%	40.77%

Source: author's processing after data from ASF, Insurance and reinsurance market report, 2018

Analyzing the results obtained for the claims ratio, it can be observed that during the period the ratio become higher, as the number of the persons contracting a health insurance increased and their medical needs and expectations are higher. But the ascending evolution of the claims ratio for health insurance (from 39,56% in 2016 to almost 50% in 2018, after a higher value in 2017) is determined mostly by the evolution of the claims ratio for health insurance attached to non-life insurance (the kind of insurance most offered by the employers).

5. Conclusions

The health insurance market in Romania is still poorly developed compared to the countries of the European Union. However, in the period 2016-2018 the health insurance market had an increasing evolution. Some of the causes of such evolution could be: the higher income of the persons as result of the economic growth; more employers offer to their employees as a benefit a private health insurance; the diversification of distribution channels: agents, brokers, banking institutions as well as training of insurance brokers on the terminology used in health insurance and on understanding the advantages and disadvantages of each health insurance product; Romanians prefer private clinics over state ones when it comes to Outpatient services or even can benefit from medical services in clinics outside Romania; campaigns to promote health insurance products Romanians started to put health first if they had to choose between health insurance and a private pension.

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