VOLUNTARY HEALTH INSURANCE AS A METHOD OF HEALTH CARE FINANCING IN EUROPEAN COUNTRIES

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─Abstract ─

In times of systematically rising health expenditure and insufficient cover provided by publicly-financed health systems additional methods of private health care funding become more and more considerable. The purpose of the paper is to provide an overview of voluntary health insurance (VHI) purchased in European countries and to analyze its contribution to health care financing systems. In the paper voluntary health insurance as a part of health expenditure incurred by the European countries is considered. Next, the results of analysis concerning the main characteristics of health insurance markets in Europe are presented. The conducted analysis was mainly focused on: the value of gross written premiums, the amount of benefits paid, the number of health insurers operating in the markets and the percentage of populations covered by voluntary health insurance. The current trends and challenges for the health insurance sector in Europe are also discussed.

Key Words: *Voluntary health insurance, Health expenditure, Health care system, Health insurance market*
JEL Classification: G22, I11

1. INTRODUCTION

In most European countries health care is financed from a combination of public and private sources with a dominant role for the former. Because of the domination of statutory coverage, funded by compulsory social health insurance contributions and/ or tax revenue, voluntary health insurance is considered to be an additional method of health care financing. Taking into account the global tendency of increasing demand for health care services and constrained public funds, policymakers are forced to consider expanding the roles for additional private methods of health care financing, such as voluntary health insurance.

In this study, voluntary health insurance (VHI) is defined as a health insurance that is taken up voluntarily and paid for privately, either by the individuals or by employers on behalf of individuals[1] (Thomson and Mossialos, 2009:13). It should be emphasized, that the role and development possibilities of voluntary health insurance are mainly determined by the range of statutory health coverage. In the international literature three main types of voluntary health insurance are distinguished according to its function in the health system (e.g. Mossialos and Thomson, 2004:16; Wasem et al., 2004:227; Weiner et al., 2008:1116; Thomson, 2010:300-301):

- substitutive health insurance – provides coverage for people excluded from or allowed to opt out of the public system (e.g. Austria, Germany, the Czech Republic, Estonia, Portugal),
- complementary health insurance – covers services excluded or not fully covered by the public system, including cover for statutory user charges (e.g. France, Belgium, Denmark, Slovenia, Latvia),
- supplementary health insurance – provides supplementary cover for faster access and increased consumer choice (e.g. Ireland, Poland, Romania, Spain, the UK).

The role of VHI in a given health care system directly affects the size of the market and the percentage of population covered, however other institutional, economic and cultural factors can not be ignored, when the current situation and development possibilities for VHI markets in Europe are discussed.

The aim of the paper is to present the importance and the share of voluntary health insurance in health care financing systems in European countries as well as to provide an overview of European markets for health insurance. The current trends in the health insurance sector and challenges for its future development are also addressed.

The conducted analysis of health care expenditure and the health insurance markets in European countries is based on databases prepared by the World Health Organization and the CEA (Comité Européen des Assurances).

[1] In most European countries private health insurance is sold on a voluntary basis, with the exception of the Netherlands, when, since 2006, private health insurance has been regulated by the government and obligatory for all residents.

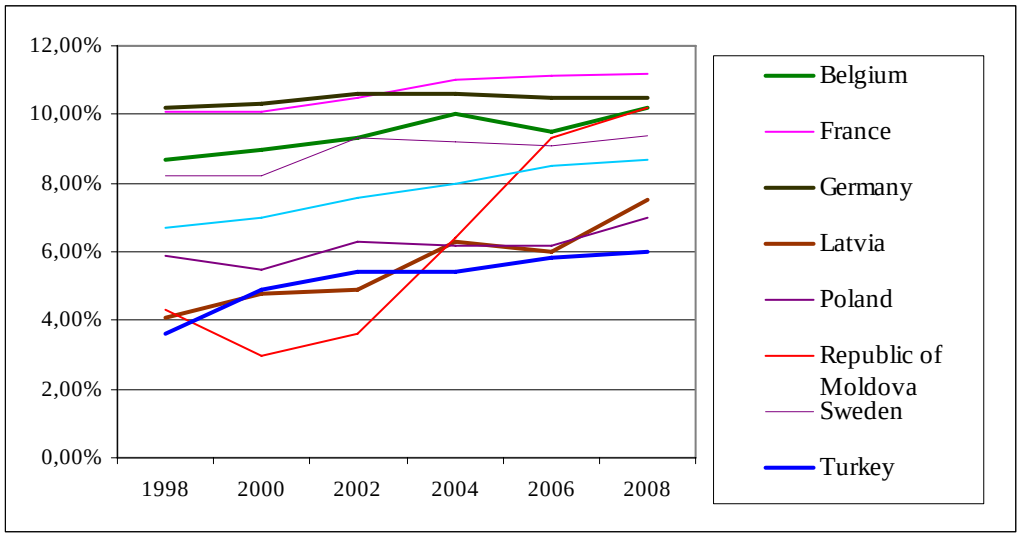
2. CONTRIBUTION OF VOLUNTARY HEALTH INSURANCE TO HEALTH CARE FINANCING

Over the last few decades a systematic increase of health care expenditure can be observed in most European countries. This tendency has become a significant worldwide problem and it is expected to continue. Among the factors that contribute to this situation the most important seem to be the following: increasing costs of health care services, demographic process (aging populations), advances in medical technology and infrastructure and increasing demand for high quality medical services (Steinmann and Yeung, 2007:6-8; Borda, 2008:102).

In European region substantial differences in levels of health expenditure incurred by particular countries can be noticed. In 2008, total health expenditure measured as a percentage of GDP ranged from approximately 6% in Estonia, Cyprus, Lithuania, Turkey (with the exception of Romania (4.8%)) to over 10% in France, Austria, Belgium, Germany, Republic of Moldova and Switzerland. As Figure 1 shows, the considered ratio has been increasing gradually, which indicates that for most analysed countries the total expenditure on health increases faster than the growth rate of GDP. The average value of the analysed ratio calculated for all European Union members increased from 7.99% in 1998 to 9.19% in 2008 (WHO, 2010).

Taking into consideration the mechanisms used to finance health care, public funds (compulsory social health insurance contributions and/ or tax revenue) traditionally play the dominant role in most European countries. Approximately 69–84% of total health expenses are public funded (Figure 2). The predominant role of public sector expenditure is especially evident in the case of Norway (84.2% of total health expenditure in 2008), the UK (82.6%), the Czech Republic (82.5%) and Sweden (81.9%). Only a few of the analysed countries (Cyprus, Switzerland and Greece) are characterized by a relatively small share of public funds in the health care financing (below 61%). It is accompanied by a relatively higher, than in the case of other states, level of private health expenditure, mainly in the form of direct households` spending on health care services (out-of-pocket payments).

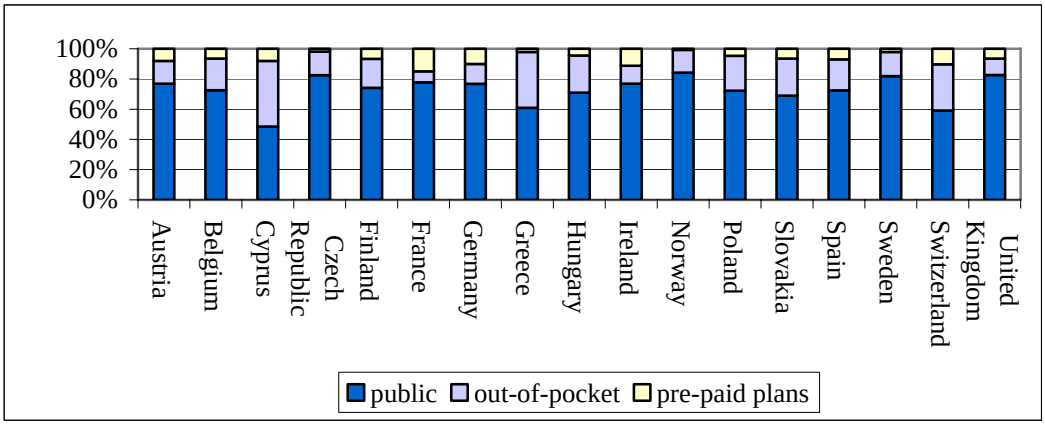
Figure-1: Total Health Expenditure as % of GDP in the Selected European Countries



Source: WHO: 2010.

Generally, in European countries an increase of using private funds to cover health care expenses can be observed. This phenomenon results directly from conducted health policy, in particular the tendency to shift partially the burden of health care financing towards the patients (in the form of partial or total payments for some medicines and health care services not reimbursed by the public system), as well as it is related to problems in getting the quick access to the medical services financed from public sources. Out-of-pocket payments have the dominant share in the structure of private expenditure on health care incurred by European countries. Out-of-pocket payments include all costs paid directly by the consumer, such as direct payments, formal cost sharing and informal payments. Pre-paid plans (including spending on private health insurance and medical subscriptions) usually represent less than 10% of total health expenditure. Exceptions are countries with well-developed voluntary health insurance markets (France (14.99%), Ireland (11.27%), Switzerland (10.23%) and Germany (10.07%)).

Figure-2: Total Health Expenditure According to the Main Sources of Financing in the Selected European Countries in 2008



Source: Author's own calculations based on data from WHO: 2010.

The level of health care spending channelled directly through voluntary health insurance is relatively low in most European countries. In 2006, it usually accounted for less than 10% of total health care expenditure with the exception of France (12.8%) and Slovenia (13.1%). In both countries VHI mainly plays a complementary role reimbursing people for the cost of statutory user charges and covers a very high proportion of the population. Voluntary health insurance also represents a small proportion of private health care expenditure, accounting for less than 25% in 2006 in most members of the European Union (Thomson and Mossialos, 2009:6).

3. MARKETS FOR VOLUNTARY HEALTH INSURANCE IN EUROPEAN COUNTRIES – RESULTS OF ANALYSIS

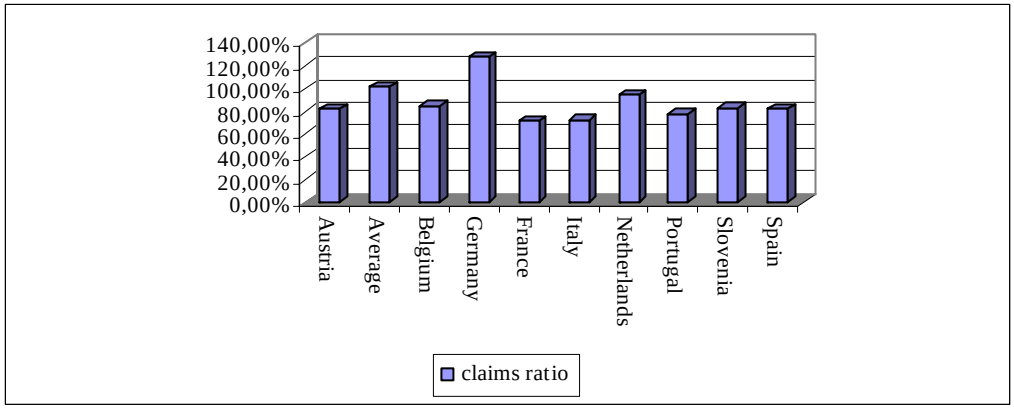
Health insurance is the second largest non-life insurance business line, accounting for nearly 25% of European non-life premiums. In 2008, the total health insurance premium collected by European insurers reached more than 96 bn EUR, which represents a real increase of 5.8% compared to the previous year (CEA, 2010). This demonstrates that, despite the economic crisis, health insurance remains among the most dynamic non-life business lines, mainly due to rising consumer demand induced by aging populations and increasing health care costs. The highest annual growth rates of health insurance premiums were noted in Switzerland (34.2%), the Czech Republic (21.2%) and Norway (21.8%).

Taking into consideration the market share measured with the amount of gross written premium, the health insurance sector is led by the Netherlands (35%) followed by Germany (32%), France (9%), Spain (6%), Switzerland (6%) and the UK (5%). However, it should be mentioned, that in 2006 the Netherlands introduced a new health insurance system that is both compulsory for all residents and private, therefore the market share of this country is the largest. In 2008, in European countries the gross premium written in the health insurance sector represented on average 0.8% of GDP. In the case of the Netherlands, because of the above mentioned health care reform, this ratio reached the outstanding level of 5.71%. Among the other analysed countries only for Switzerland, Germany and Slovenia the voluntary health insurance premiums exceeded 1% of GDP.

The benefits paid by the private health insurers in Europe amounted to nearly 80 bn EUR in 2008, which gives a 6.1% growth in real terms in comparison to the amount reached in 2007. However, the annual growth rate of benefits is significantly different for particular analysed countries and takes both positive and negative values. In the period 1999-2008 it can be seen, that the average annual real growth rate of benefits paid (8.2%) was slightly higher than the average annual real growth rate of premiums (8.0%). The largest percentage of total health insurance benefits in Europe is paid in the Netherlands (40.5%), followed by Germany (30.5%), France, Spain, Switzerland and the UK. On average, more than three quarters of total benefits paid are used to reimburse hospital and ambulatory costs.

The characteristic feature of health insurance is a relatively high claims ratio compared to other types of non-life insurance products. In health insurance, claims ratio is calculated as a sum of benefits paid and change in provisions divided by the amount of written premium (CEA, 2008). As Figure 3 shows, in 2008, apart from Germany and the Netherlands, all the analysed countries experienced a claims ratio of between 72% and 85%. In the case of the Netherlands the higher value of the claims ratio resulted directly from the new health insurance system. The highest ratio is noticeable for Germany (128%) and it is caused by a traditionally substantial amount of provision for aging. In addition, the funding of the reserves is also included. Hence the ratio in this particular country corresponds rather to a benefit ratio and is not strictly comparable with the other countries.

Figure-3: Claims Ratio Calculated for the Selected European Countries in 2008



Source: CEA: 2010.

Voluntary health insurance can be offered by mutual and provident associations, commercial insurance companies and statutory health insurance funds. In 2008, the number of private health insurers operating in European countries varied considerably from five or fewer insurers in Norway, Slovenia, Estonia and Ireland to as many as 105 insurance companies in France, 92 in Italy and 79 in Spain. The evolution over the past few years shows a regular decrease in the total number of companies active in the health insurance sector, demonstrating the increasing concentration in this market. It seems that the number of insurance companies is not correlated to the size of the population or the size of the market. Moreover, the largest number of specialized health insurance companies is noted in the case of Germany, the Netherlands and Spain.

In 2008, for CEA members, on average 27.5% of the population was covered by a health insurance contract compared to 26.8% in 2007 and 22.8% in 1999. However, this percentage varies greatly between countries, given the differences in the protection systems put in place, and it notably depends on whether health insurance is taken out mostly as a complementary cover or as a supplementary one. The analysed ratio ranges from 99.5% in the Netherlands (where private health insurance scheme is now mandatory) to less than 0.5% in Estonia, Romania and Lithuania. The markets with relatively high levels of population covered are those covering statutory user charges in France (92%), Luxemburg (91%), Slovenia (74%) and Belgium (73%) (Thomson and Mossialos, 2009:6). On the other hand, the markets with the dominant share of supplementary health insurance tend to be smaller in terms of population coverage (e.g. the UK with

8.8% of the population covered). Taking into account the type of a health insurance contract (individual or group), individual health policies are mainly purchased in Austria, Germany and Slovenia, whereas group coverage is more popular in Belgium, Norway and Sweden and the UK.

4. CONCLUSION

The presented results of the analysis of health expenditure incurred by European countries indicate that voluntary health insurance and other pre-paid plans do not play a significant role in the health care financing. The market potential for VHI in a given country is directly determined by the range of statutory, publicly-financed coverage.

Despite the economic crisis, the voluntary health insurance sector in Europe has been steadily growing, mainly due to an increasing demand for health care services. The analysis of VHI markets in European countries shows visible differences between them, especially in the amount of gross written premiums and benefits paid, the number of insurers, the percentage of population covered under VHI, dominating types of coverage (individual or group), which are heavily influenced by institutional, economic and cultural factors. This may reflect historical developments, political ideology, the relative power and interests of health care providers, insurers and also different groups in the population as well as the government capacity to shape and develop the health insurance market. Despite the growing interest in the voluntary health insurance sector, the important factors that may limit its further development seem to be the following: increasing concentration in the market, relatively high premiums, lack of tax incentives, competition from private medical services providers and still low level of the insurance awareness in some European countries.

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