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Institutional development of voluntary health insurance market in Ukraine

Abstract. *Introduction.* Many reforms are taking place in Ukraine within the framework of the European integration. Modernisation of the health care system is one of them. In Europe, medical insurance possesses are one of the most significant elements of the insurance market along with car and property insurance. Notwithstanding this fact, the development of the Ukrainian voluntary health insurance system is obstructed by several major objective and subjective factors. *Purpose and Results.* This article examines classification of the voluntary health insurance system, demonstrates trends in the dynamics of voluntary health insurance development, shows peculiarities of quantitative and qualitative changes in its constituents and identifies problems and prospects of its development in Ukraine. Such methods of research, as system approach, analysis and synthesis, dynamics and structure valuation, and market segmentation have been used.

The authors of this article have generalised the classification of the voluntary health insurance and calculated shares of insurance premiums for voluntary health insurance contracts and the level of insurance payouts. The article determines the dynamics of the volume and level of insurance payments on voluntary medical insurance in Ukraine in 2010-2015; as well as quantitative and qualitative characteristics of the institutional development of the voluntary medical insurance in the country. Besides, the factors that have a negative impact on the development of this part of the insurance market have been defined.

Keywords: Institutional Development; Health Insurance; Market; Voluntary Health Insurance

JEL Classification: G22; I11; I12; I13; I14; I15; I18

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Інституціональний розвиток ринку добровільного медичного страхування в Україні

Анотація. У статті доведено важливість послуг добровільного медичного страхування як інструменту захисту соціально-економічних інтересів індивідуальних і корпоративних клієнтів. Уточнено класифікацію добровільного медичного страхування за видами, суб'єктами, умовами договорів. На основі кількісних оцінок проаналізовано значущість добровільного медичного страхування як сегмента страхового ринку. Визначено закономірності динаміки чистих страхових премій і частки страхових виплат на ньому, а також перспективи розвитку вказаного сегмента, які пов'язані з формуванням конкурентного середовища та діяльністю асистанських компаній.

Ключові слова: інституціональний розвиток; медичне страхування; ринок.

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Институциональное развитие рынка добровольного медицинского страхования в Украине

Аннотация. В статье доказана важность услуг по добровольному медицинскому страхованию как инструмента защиты социально-экономических интересов индивидуальных и корпоративных клиентов. Уточнена классификация добровольного медицинского страхования по видам, субъектам, условиям договоров. На основе количественных оценок проанализирована значимость добровольного медицинского страхования как сегмента страхового рынка. Определены закономерности динамики чистых страховых премий и части страховых выплат на нем, а также перспективы развития указанного сегмента, связанные с формированием конкурентной среды и деятельностью ассистанских компаний.

Ключевые слова: институциональное развитие; медицинское страхование; рынок.

1. Introduction

Every state should have constant and sufficient financial resources to fund health care system. Medical insurance plays an important role in it. Every country adapts the traditional models of voluntary and compulsory social insurance according to trends and characteristics of its socio-economic development. [1, 165] In order to improve medical insurance system in a country a historical and legislative experience should be taken into account.

At the beginning of the 20th century Ukraine was under the rule of two different countries, each of which had its own social security system [3, 543]. The organisation of a funding model for the modern Ukrainian medical insurance system is being done in the framework of European integration. In Europe medical insurance possesses one of the most significant parts of the insurance market along with motor and property insurance. [4, 35] Simultaneously, the development of the Ukrainian voluntary health insurance system

is obstructed by several major objective and subjective factors. Most of them are related to the imperfect legislation, healthcare systemic crisis, corruption in the public sector of health services and uncompetitive practices in the private healthcare sector. For this moment, there are no state incentives that would encourage cooperation between medical institutions and insurance companies. Therefore, insurers are treated as donors that are supposed to solve systemic problems of various medical institutions, or as needless intermediaries that can obscure cash movements (cash flow) in the given algorithm.

2. Brief Literature Review

The problems of voluntary health insurance improvement were main topics of works conducted by such researchers as M. Green (2014) [5], P. Kongstvedt (2015) [6], M. Morrissey (2013) [7], L. Norris (2015) [8], Y. Homynych and N. Cheluhyna (2013) [9]. Ukrainian scholars, instead, have devoted their researches to a cluster model of medical services [10, 46] and

to modelling the impact which compulsory social health insurance has on the development of human capital [11, 47]. Although these researches have contributed a lot to the development of scientific approaches used to analyse the health insurance system, issues such as institutional development of the voluntary health insurance in Ukraine still require additional thorough study.

3. The purpose of the research is to systemise the classification of the voluntary health insurance, to demonstrate trends in the dynamics of voluntary health insurance development, to examine peculiarities of quantitative and qualitative changes in its components and to identify problems and prospects of its development in Ukraine.

4. Results

Voluntary health insurance is a type of private insurance, according to which a basis of insurance policy is defined as property interests (in accordance with the law) related to health and employability of the insuree. It provides a possibility of full or partial reimbursement for medical and health-care services received by the insured person in case of health problems (under the terms of the signed insurance contract). The main classification features of voluntary insurance types are approved by the Order of the State Commission for Regulation of Financial Services Markets of Ukraine as of 9 July 2010, No. 565 [12]. This order designates the following types of health insurance:

- permanent health insurance, which covers costs for medical aid provided by medical institutions to the insuree in the framework of the chosen health insurance program. The mentioned aid is rendered in case of diseases; exacerbation of chronic diseases or health disorders due to accident, other types of medical assistance provided according to the insurance agreement, reimbursement of health care expenses confirmed by the relevant documents;
- health insurance in case of illness, which defines responsibility of the insurer to make an insurance payment under the terms of the insurance agreement. It presents a real opportunity to get a financial compensation in full or partial amount from the insurance company in case of illness, death or temporary disability due to the insuree's illness or in the case of a disease which is recognised by the insurer within the term of the insurance contract;
- medical expenses insurance, which is a type of health insurance that covers medical, surgical and hospital expenses. It defines the responsibility of the insurer to make an insurance payment or reimbursement of the expenses (certified by receipts) for health and other assistance related to the insuree's disease, exacerbation of chronic diseases or health disorders due to accident or death, or due to disease or accident that took place during the insuree's trip.

Except for being structured by types, voluntary health insurance also has other characteristics for classification (Figure 1). According to the subject of the insurance program, voluntary health insurance is divided into two groups: for private and for corporate clients. Corporations mainly use this type of insurance as a motivation for the employees (social investment packages). According to the terms of the insurance contract, voluntary health insurance services can be split into standardised and personalised.

Insurance coverage in a standardised insurance package includes:

- first aid (comprising stationary ambulance);
- professional, dental, outpatient and preventive examination;
- childbirth maintenance (during pregnancy and childbirth);
- medical treatments, etc.

Whereas, terms of personalised voluntary insurance contracts could be expanded by: vitamin therapy, immunisation, massages, activities and exercises in the swimming pool or gym and other courses.

The main purpose of voluntary health insurance is to guarantee insurees qualified medical assistance in case of happening of an insured event. Such assistance is provided within the accumulated assets. On the one hand, the above-mentioned refers to the financing of actually received medical or disease preventive services. On the other hand, it corresponds to the assurance of health services' quality. Particularity of this insurance type is that the quality of insurance highly depends both on the work of the insurer and on the performance of its counterparts/partners (pharmaceutical companies and other medical institutions). Therefore, most of the insurance companies are eager to cooperate either with those private medical institutions that could provide the required quality level or with state health care institutions which are willing to implement proper accounting and controlling over receipt and use of funds.

Rates of net voluntary health insurance premiums have increased from 1,162 to 2,130.1 million UAH (or 1.83 times) during the period of 2010-2014 (Table 1). Net insurance premiums for the health insurance in case of illness have increased at an accelerated pace (by 2.17 times). The rise of the underwriters' premiums was caused by an increase in prices for medicines and medical services as well as by the introduction of new expensive voluntary health insurance programs.

Net premiums written have changed less (by only 1.4 times), which caused an increase in insurance premiums ratio from 8.72% to 11.46%. The results for the first nine months of the year 2015 show that this ratio declined to 10.71%.

The growth rate of net claims incurred for voluntary health insurance has straggled the growth of premiums (by 1.71 times), so that the level of payments under the terms of insurance contracts has decreased from 64.9% to 60.5%.

The acceleration was observed in payments for the insurance in case of illness (by 80 times) and for the permanent health insurance (by 75.1%) (Table 2). Although a higher rate of insurance payments is observed in cases of the permanent health insurance, it decreased during the researched period (from 78.2% in 2010 - to 59.7% as for the 9 months of 2015). This type of insurance is very technological, requires proper functioning of the system and still has high losses (that constantly increase). Permanent health insurance has the greatest share in the voluntary health insurance (71% as of 1 October 2015).

With the beginning of economic crisis in Ukraine, most of the employers have started reducing costs on various social programs, especially on corporate voluntary health care insurance. The main reasons for this were currency devaluation, increase of prices for utilities, low insolvency, which causes termination of the existing contracts and rejection to continue interactions with unprofitable customers from the

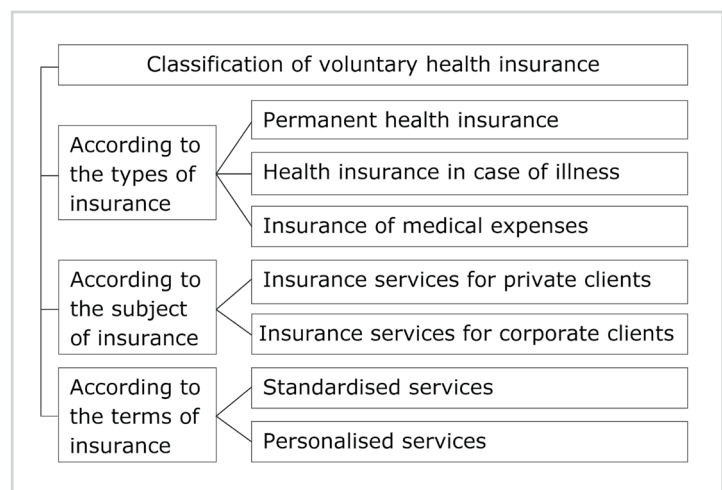


Fig. 1: Classification of the voluntary health insurance
Source: Own research

Tab. 1: Share of premiums for voluntary health insurance contracts and the level of claims for them

Year	Net premiums written, million UAH					Net claims incurred for voluntary health insurance, billion UAH	Net premiums written in a total amount of premiums for voluntary health insurance, %	Rates of net voluntary health insurance premium, %
	Total	including on a voluntary health insurance			Total			
		Permanent health insurance	Health insurance in case of illness	Medical expense insurance				
2010	13,327.7	1,162.0	809.4	138.7	213.9	754.7	8.72	64.9
2011	17,970	1,561.7	1,087.7	185.9	288.1	889.5	8.69	57.0
2012	21,508.2	1,686.5	1,280.1	88.5	317.9	1037.4	7.84	61.5
2013	21,551.4	2,090.6	1,395.7	371.5	323.4	1177.9	9.70	56.3
2014	18,592.8	2,130.1	1,507.1	301.3	321.7	1288	11.46	60.5
Growth rate 2014/2010, coefficient	1.40	1.83	1.86	2.17	1.50	1.71	1.40	1.83
9 months 2015	16746.4	1793.6	1441.8	-	351.8	1213.1	10.71	67.6

Source: Own research based on [13]

Tab. 2: Trends in the dynamics of payments for voluntary health insurance in Ukraine

Index	Unit of measurement	Annual data					9 months data	
		2010	2011	2012	2013	2014	2014	2015
Net insurance payments								
Permanent health insurance	Million UAH	632.9	752.4	900.8	1,010.1	1,108.5	806.5	861.3
	Basic growth rate, %	100	118.9	142.3	159.6	175.1	100	106.8
Health insurance in case of illness	Million UAH	38	34.4	16.1	66.5	68.4	-	-
	Basic growth rate, %	100	90.5	42.4	175.0	180.0	-	-
Medical expenses insurance	Million UAH	83.8	102.7	120.5	101.3	111.1	245.4	351.8
	Basic growth rate, %	100	122.6	143.8	120.9	132.6	100	143.4
Total	Million UAH	754.7	889.5	1,037.4	1,177.9	1,288	1,051.9	1213
	Basic growth rate, %	100	117.9	137.5	156.1	170.7	100	115.3
Level of insurance payments amount								
Permanent health insurance	%	78.2	69.2	68.1	72.4	73.6	67.2	59.7
Health insurance in case of illness	%	27.4	18.5	18.2	17.9	22.7	-	-
Medical expenses insurance	%	39.2	35.6	37.1	31.3	34.5	32.5	32.3

Source: Own research based on [13]

insurer's side. An important problem lied also in the unprofitable insurance programs, where subscription of medicines was not limited, especially in times of price increase, customer attrition because of the rise in rates and tariffs and the lack of control in the optimisation of losses. Insurers have no impact on currency volatility, but they are obligated to optimise losses intensifying their cooperation with the coordinators at the insurance companies. Such coordinators are responsible for the cost control and monitoring of the receipts for the insurees under terms of voluntary health insurance.

As institutions subordinate to the Ministry of Health of Ukraine are state funded and are registered as non-profit organisations, they are not able to quickly update their material and technological infrastructure; to prepare medicines to stock; to provide fair living wage for employees; and therefore, to maintain qualified medical services. There were cases, when insurees were offered to consume unreasonably expensive drugs/medicines instead of cheaper generic medicines or to buy what is absolutely redundant. Such actions are provoked by pharmaceutical companies. In such cases, the denial of insurance claims to be reimbursed for the fully insured patients is often explained as unconscionable conduct of the insurer. Accordingly, voluntary health insurance system is aimed at improving the state medical institutions; at enhancing their funding programs; and at controlling over reallocation of budget funds and their intended use.

In contrast, private medical centres/clinics invest in modern medical equipment and attract new highly skilled employees; they are interested in providing high quality services; they have well-organized business processes and ascertained price-lists for their services. However, imperfect competition in the health insurance market influences unfair price rise for such services in order to increase insurers' income. This causes insolvency of the voluntary health

care insurance program (normally developed for an upcoming year).

Proper controlling over the costs for medical services that are provided by private health care institutions will positively influence the formation of the competitive insurance market and harmonise professional interests of both insurers and insurees. The main goal of the voluntary health care system is not only to assure an income for the insurance company or medical institution, but also to satisfy interests of the customer; and guarantee high quality of services provided.

5. Conclusions

The market of voluntary health insurance in Ukraine is represented by the following types: permanent health insurance; health insurance in case of illness; medical expense insurance.

Institutional development of voluntary health insurance market in Ukraine is characterised by quantitative (steady growth of net premiums and payments) and qualitative criteria (increasing ratio of net insurance premiums and reduction of the share of insurance premiums). There are also drivers that have a negative impact on the development of this segment of the insurance market. Among them:

- high volatility of national currency,
- decline of living standards,
- low market competition,
- poor infrastructure,
- low cooperation between insurance companies, hospitals and insurees.

Therefore, proper development of the voluntary health care insurance market is closely related to a competition and activities of the auxiliary companies on the market.

Taking into consideration all the above mentioned, our further researches will be focused on the development of financial mechanisms for compulsory health insurance.

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- Establishment of partnership between authorities and business circles
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