

THE ANALYSIS OF THE PENETRATION DEGREE AND DENSITY OF PRIVATE HEALTH INSURANCE IN ROMANIA

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1. Introduction

In Romania, private health insurance plays the role of a voluntary scheme, parallel to the public health insurance system, which covers certain medical services required by the insured.

Private health insurance is the operation throughout which an insurer uses received insurance premiums, paid by persons who acknowledge the existence of a certain medical risk, in order to create an insurance fund which consequently finances medical services later required by the insured. Disbursements are made from the previously established fund, which consists of both premiums and other type of revenue (interests, positive differences in exchange rates etc.).

Although the existence of private health insurance schemes has been enforced in 2006 by Law. 95/2006 with regard to the healthcare reform, the popularity of these types of insurance is very low in Romania and most private health expenditure takes the form of direct payments made for certain medical services, medicines and sanitary materials which are not covered by the basic package of medical services.

The latest World Health Organization data on Romania shows that between the years 2005 and 2009, 18,03%¹ of total health expenditure were borne directly by the insured, additional

to compulsory health insurance contributions. Compared to this value, the EU average was 1,65 percentage points lower, representing 16.38% of the total health expenditure, the lowest share of this category of expenses, 7,08%, being found in France, and the highest in Bulgaria, averaging 38,04% of total health expenditure².

Due to these aspects, we believe that the analysis of the actual level of development of the private health insurance market in Romania can only be achieved by measuring the degree of penetration and density of these insurance products.

2. An analysis on the development of the private health insurance market in Romania

The penetration degree of private health insurance (PD_g) is an indicator which emphasis the dynamics between the total gross written premiums and the total GDP and highlights the contribution of the private health insurance sector to the gross domestic product:

$$PD_g = \frac{\text{Subscribed gross premiums}}{\text{Gross domestic product}} \times 100$$

The density of the private health insurance (D) is also a dynamics indicator which measures the ratio

¹ World Health Organization - Global Health Observatory Data Repository, apps.who.int/ghodata/

² World Health Organization - Global Health Observatory Data Repository, apps.who.int/ghodata/

between total subscribed gross premiums and the number of inhabitants:

The degree of penetration of the private health insurance in Romania is described in Table no. 1.

$$D = \frac{\text{Subscribed gross premiums}}{\text{no. of inhabitants}}$$

Table no.1 The degree of penetration in Romania between 2005-2010

Indicator	Year					
	2005	2006	2007	2008	2009	2010
Gross written premiums (million lei)	17,60	29,80	23,73	28,21	24,86	21,23
GDP (million lei)	287.200,00	342.400,00	404.700,00	503.958,70	491.273,70	513.640,80
Degree of penetration (%)	0,0061	0,0087	0,0058	0,0056	0,0050	0,0041

Source: working of the authors based on data provided by INSSE (www.insse.ro) and CSA (www.csa-isc.ro)

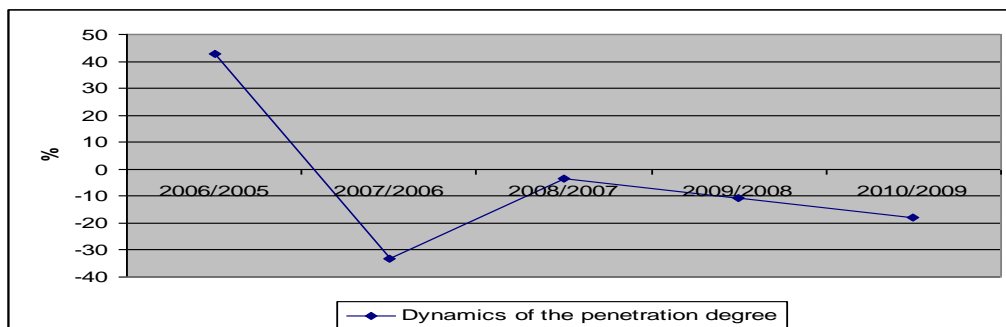
According to the results in Table no.1, the degree of penetration of private health insurance has an extremely low importance with an average of 0.00591% between 2005 and 2010 which represents less than 1% of the average penetration degree registered at European level (CEA, 2008). Even though the legislative foresights have settled this insurance product back in 2006, it is ascertained that the development level of private health insurance is comparative to the one in Norway, a country in which the protection of health is made exclusively through the social health insurance system.

The increase in penetration had spiked at 42,02% in 2006 against 2005, while the total value of subscribed gross premiums increased by 69,32%. The substantial gap between the growth rates of the two indicators is based on a lower growth rate of Gross Domestic Product which only reached 19.22%.

The dynamics of the evolution of the penetration degree of private health insurance is described in Graph no. 1. The most significant growth of the private health insurance market in Romania was

Starting from 2007, the penetration degree was positioned on a negative trend, with an average decrease between 2007 and 2010 of 29,51% and with a 32,62% maximum decrease in 2007 compared to 2006. Even though the value of the gross written premiums increased from 17,6 million lei in 2005 to 23,73 million lei in 2007, the 40,91% increase in GDP during the same period caused a deviation of - 4,32% between the penetration degree in 2005 and the one in 2007.

Graph no. 1. Yearly dynamics of the penetration degree of private health insurance in Romania



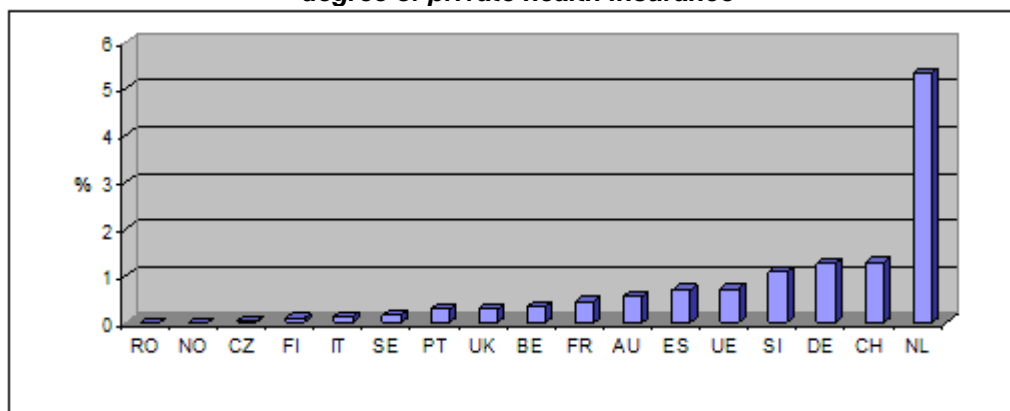
Source: working of the authors based on data from Table no. 1

In 2008, total gross written premiums increased by 18,88% compared to 2007 but, due to a new growth of GDP by 24,52%, the penetration degree decreased by 4,53% compared with 2007 and 35,68% compared to 2006, respectively. During 2009 and 2010 the penetration degree continued to spike downwards, with an

average decrease of 13.96 %, which was more significant in 2010, when the growth rate reached the negative value of -18,32%.

At European level, as shown in Chart. 2, Romania ranks last in terms of penetration degree of private health insurance.

Graph no. 2 Country ranking in Europe according to the penetration degree of private health insurance



Source: working of the authors based on data provided CEA - Insurers of Europe, www.cea.eu

With regard to the density of private health insurance, we acknowledge that between the years 2005-2010, the average registered density was of 1,19 lei. The maximum point was registered in 2009, when the value per capita was of 1,57 lei and the

minimum point was registered in 2005 at a value of 0,81 lei per capita. If we analyze the growth rate, the average value has been of 10,25%, with a maximum increase of 69,55 % in 2006 against 2005.

Table no. 2 Private health insurance density in Romania between 2005-2010

Indicator	Year					
	2005	2006	2007	2008	2009	2010
Gross written premiums (million lei)	17,60	29,8	23,73	28,21	24,86	21,23
No. of inhabitants (millions)	21,62	21,58	21,53	21,50	21,47	21,46
Density (lei/capita)	0,81	1,38	1,10	1,31	1,57	0,99

Source: working of the authors based on data provided by INSSE (www.insse.ro) and CSA (www.csa-isc.ro)

According to Table no. 2, in 2006, when the penetration degree registered

its maximum value, the density of private health insurance only reached 1,38 lei, a

lower value than the one of 1,57 lei registered in 2009. This gap of 0,19 lei has been created by the increase in the dynamics of the density by 13,77 % between the two intervals.

In terms of density, "Romania is placed below European average" (CEA, 2008) of 175,15 euro, ranking last with a value of 0,27 euro per capita. The gap between Norway, the state with the second lowest density in the same period of time, and Romania is 5,14 euro or in other words, 95 percentage points.

3. The influence of supplementary private health insurance on the development of the private health insurance market in Romania

In order to test the potential development of the private health insurance market in Romania will start with the assumption that the health insurance system is reformed through measures which resemble the second pillar of the pension system, namely by forwarding 3 percentage points (the value for the year 2011) from the contribution to the statutory health insurance system to

private insurers. According to the National Health Insurance House, in 2010 income from health insurance contributions totalled 13.153,5 million lei, while total revenues were 17.258,7 million lei.

In Table no. 3 we have determined the expected increase in penetration degree of private health insurance should the 3 percentage points redirected from compulsory health insurance contributions to private health insurance companies be added to supplement the already existing amount of subscribed gross premiums.

In this way, we realize that, the penetration degree of private health insurance in Romania is expected to reach the average value in Europe of 0,72% (CEA, 2008), outrunning the penetration degree in countries as Austria, France, Italy and Great Britain.

Also, under these circumstances, the density of private insurance would be of 172,82 lei, representing 0,804% (INSSE) of the gross average yearly income, a value which is not expected to have a negative impact on personal expenditure.

Table no. 3 Expected evolution of the health insurance penetration degree under the assumption of transferring 3 percentage points from statutory health insurance contribution to private health insurers

Indicator	U.M.	Value
Total revenue from statutory health insurance contributions in 2010	(million lei)	13.153,50
Potentially transferred amount	(million lei)	3.687,90
Gross written premiums in 2010	(million lei)	21,23
Expected value of gross written premiums with the assumption	(million lei)	3.709,13
GDP in 2010	(million lei)	513.640,80
Expected penetration degree with the assumption	(%)	0,72
Expected density with the assumption	(lei)	172,82

Source: working of the authors based on data from Table no. 1

4. Conclusions

Even if the hypothesis we have analyzed could bring significant benefits in terms of resource management, while contributing to the development of private

health insurance at a level which is expected to be at least comparable to that in Europe, the actual effects on health are difficult to quantify. With the cost of medical services, medicines and sanitary materials being allowed to

evolve freely, we assume that the market for private health insurance may not be able to reduce the financial burden borne by the state finances. With the pressure of rising costs, private insurance might prove to be unsustainable, leading either to an increase in premiums or to bankruptcy. Insolvency or bankruptcy of the insurers would entail a perpetual maintenance of budgetary deficits, due to the fact that the state bears responsibility as far as the health of their citizens is concerned.

Nevertheless, we consider that the main reason for which the Romanian private health insurance market lags behind those of European Union countries is given by the slow reform taking place at both infrastructure and

fiscal level. The private health insurance market has grown relatively slow in the absence of a specific legislation that ought to redefine the basic package and possible tax incentives benefiting individuals and businesses. Drastic financing measures should be avoided or at least be spread out over time. Any sudden reorientation of the means of financing or management, similar to those developed for the year 2012, not only would not solve the funding problems, but could lead to an irreversible collapse of the health insurance system in a time when most countries are increasingly taking into account an increase in health insurance coverage, as a response to social solidarity.

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