

ROMANIA'S PRIVATE HEALTH INSURANCE MARKET POTENTIAL

GHEORGHE MATEI, BIANCA VOLINTIRU*

ABSTRACT: *The significant gap between the quality of life and the level of health expenditure has led to the need to reconsider the modalities and the sources of collecting and redirecting the funds of the sanitary sector in such a way that sustainable medical results are generated for the entire population of the globe. Under these circumstances, the role of private health insurance is constantly increasing, even though its importance is still being influenced by the types of social policy and the dimension of the public health sector at national level. Due to the impact of these factors, the actual dimension of private health insurance market varies significantly across countries. In order to be able to realistically assess the level of development of the private health insurance market in Romania, the analysis has to be taken further than the simplistic measurement of indicators such as income and expenditure.*

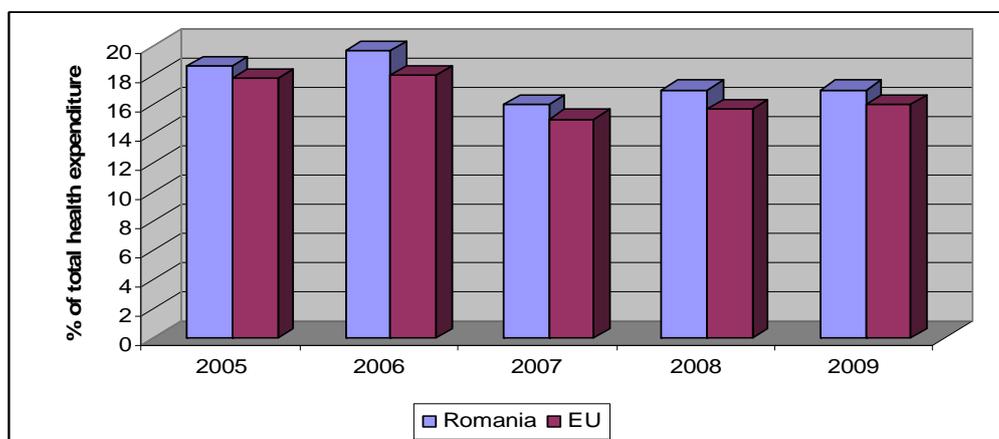
KEY WORDS: *private health insurance; density of private health insurance; degree of penetration of private health insurance.*

JEL CLASSIFICATION: *I10; I11; I13.*

1. INTRODUCTION

Most commonly, market analysis undertaken in the field of health insurance usually measures the share of private expenditure in relation to total health expenditure. According to the latest available data on Romania during the years 2005 and 2009, 18,03% (World Health Organization - Global Health Observatory Data Repository, apps.who.int/ghodata/) of total health expenditure were borne directly by the insured, additional to compulsory health insurance contributions, whereas the European average was 1,65 percentage points lower, representing 16.38% of the total health expenditure (apps.who.int/ghodata/) (figure 1).

* *Prof., Ph.D., University of Craiova, Romania*
Ph.D. Candidate, University of Craiova, Romania



Source: working of the authors based on *Health Systems in Transition – Romania*, World Health Organization, vol. 10, 2008, p. 56 and www.tradingeconomics.com

Figure 1. Private health expenditure in Romania and the EU between 2005-2009 (% of total health expenditure)

Apparently, the private health sector in Romania is somewhat comparable to the one in the European Union. Should the analysis be taken further through the use of specific indicators such as insurance penetration degree and insurance density (The Geneva Association – Global insurance industry fact sheet, Geneva, 2011, p. 2), the results show a significant gap between the private health insurance market in Romania and the average market size in Europe.

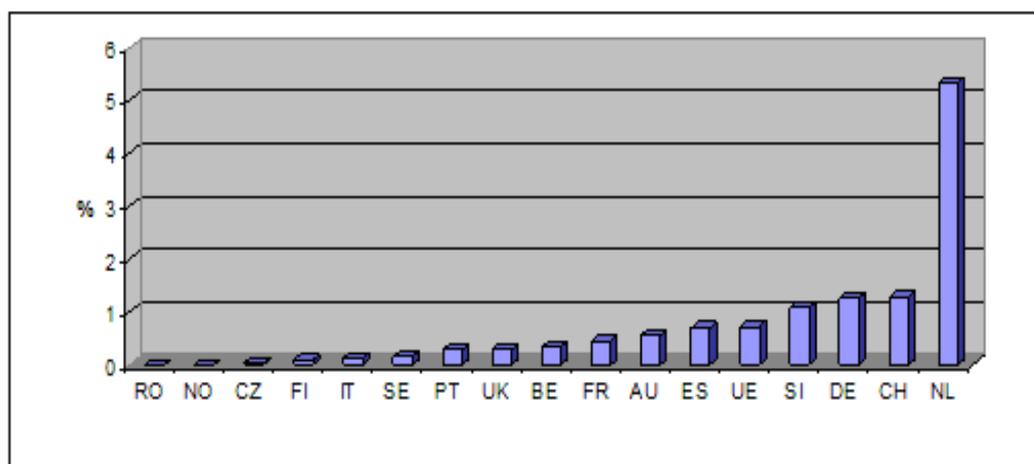
According to the results in Table no.1, while the penetration degree in Europe averaged about 0,72% between the years 2005-2010, Romania's penetration degree during the same period barely reached 0,006% (Matei & Mihart, 2012).

Table 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 (billion lei)	287,20	342,40	404,70	503,96	491,27	513,64
Degree of penetration (gross written premiums/ GDP, %)	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)

In comparison to other countries in Europe (both members and non-members of the EU), Romania ranks last in terms of penetration degree of private health insurance, as shown in figure 2.



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

Figure 2. Country ranking in Europe according to the penetration degree of private health insurance

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, as presented in Table 2.

Table 2. Private health insurance density in Romania between 2005-2010

Indicator	Year					
	2005	2006	2007	2008	2009	2010
Gross written premiums (<i>million lei</i>)	17,60	29,8	23,73	28,21	24,86	21,23
No. of inhabitants (<i>millions</i>)	21,62	21,58	21,53	21,50	21,47	21,46
Density (<i>lei/capita</i>)	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)

In terms of density, "Romania is placed below European average" (CEA Insurers of Europe - CEA Statistics N°41: The European Health Insurance Market in 2008) of 175.15 euro, „ranking last in the region” (Matei & Mihart, 2012) with a value of 0.27 euro per capita.

Under these circumstances, and also taking into consideration the need to at least maintain the current level of health insurance coverage, we believe that certain possibilities are available in order to stimulate the future private health insurance market in Romania.

2. POTENTIAL DEVELOPMENT MEASURES FOR THE ROMANIAN PRIVATE HEALTH INSURANCE MARKET

In order to test the potential development of the private health insurance market in Romania will test two sets of measures that could be taken, respectively: either to standardize the density of private health insurance in Romania at the 175,155 euro density average (at a rate of 4.3 lei / euro) in Europe or to forward the entire amount representing social health insurance contribution to private insurers.

Under the assumption that private health insurance density can be standardized to the value of 753,166 lei (175,155 euro), we notice that the penetration degree is expected to evolve positively, as shown in Table 3.

Table 3. Expected insurance penetration degree with standardized density at 2010 European level

Indicator	Value
Density (<i>lei per capita</i>)	753.166
Number of inhabitants in 2010 (<i>million</i>)	21.462
Expected gross written premiums (<i>million lei</i>)	16164.450
Gross written premiums in 2010 (<i>million lei</i>)	21.230
GDP in 2010 (<i>million lei</i>)	513640.800
Expected penetration degree (%)	3.140
Actual penetration degree in 2010 (%)	0.004

Source: working of the authors based on data provided by INSSE, www.insse.ro, National Accounts Section

In the case of the first hypothesis, we find that the gross written premiums increase from 21.23 million lei to 16,164 million while the penetration degree has positive evolution from 0.04133% to 3.14%.

However, we consider that such an increase in density can not be achieved due to the significant discrepancies between the average gross monthly income in Romania (1902 lei/ 416.51 euro) and the average gross monthly income in Europe (3166 euro). For greater representation of the hypothesis we will determine the potential penetration degree of private health insurance in a context of proportionality between density and average gross monthly income in the EU27. The results are presented in Table 4.

Knowing that private health insurance density ratio to the average gross monthly income in Europe represents about 0,46%, we applied this percentage to the average gross wage in Romania, obtaining a density value of 8,75 lei per capita per month and a annual value of 105 lei per capita. Under these conditions, the expected total gross written premiums would be 2.253,51 million lei, while the potential penetration degree is expected to reach 0.43%, marking a significant increase from the values recorded in 2010.

Table 4. Expected insurance penetration degree with a standardized, proportional insurance density

Indicator	Value
Average density in UE in 2010 (<i>euro</i>)	175.155
Average gross monthly income in UE in 2010 (<i>euro</i>)	3.66.000
Density ratio (to average gross yearly income) (%)	0.460
Average gross monthly income in Romania in 2010 (<i>lei</i>)	1902.000
Expected value of density (per month) (<i>lei</i>)	8.750
Expected value of density (per year) (<i>lei</i>)	105.000
Number of inhabitants in 2010 (<i>million</i>)	21.462
Expected gross written premiums (<i>million lei</i>)	2253.510
GDP in 2010 (<i>million lei</i>)	513640.800
Expected penetration degree (%)	0.430
Actual penetration degree in 2010 (%)	0.004

Source: working of the authors based on data provided by INSSE, www.insse.ro, National Accounts Section and CSA, www.csa-isc.ro

A penetration level of 0.43% would bring the national private health insurance market to a size comparable to that of Austria (0.57%), France (0.49%) and Belgium (0.43%) (CEA- Insurers of Europe).

In the case of the second hypothesis, we have made the assumption that in order to reform the national health insurance system, the National Health Insurance House could redirect all income from compulsory contributions to private insurers, while as the 2010 value of gross written premiums remains constant.

This presumption of a stable value of the gross written premiums for private health insurance could be argued for by taking into account the fact that the population already holding a private health insurance is aware of its own health risks and will not cancel existing contracts. The expected penetration degree and density under this assumption are presented in Table 5.

In this case, the penetration degree is expected to reach 2.564% without imposing additional financial effort on the insured, since we have assumed earlier that gross written premiums in 2010 are subject to a voluntary behavior market, which is not significantly influenced by the type of management in the health sector. Even if all insured in the private system would resort to a termination of existing policies, the penetration degree would only diminish to the value of 2.56%.

Moreover, the expected penetration degree would still not vary significantly, should we take into account a suggested legislative measure which provides that 2.8% of the funds collected by private insurers are retained in order to cover own

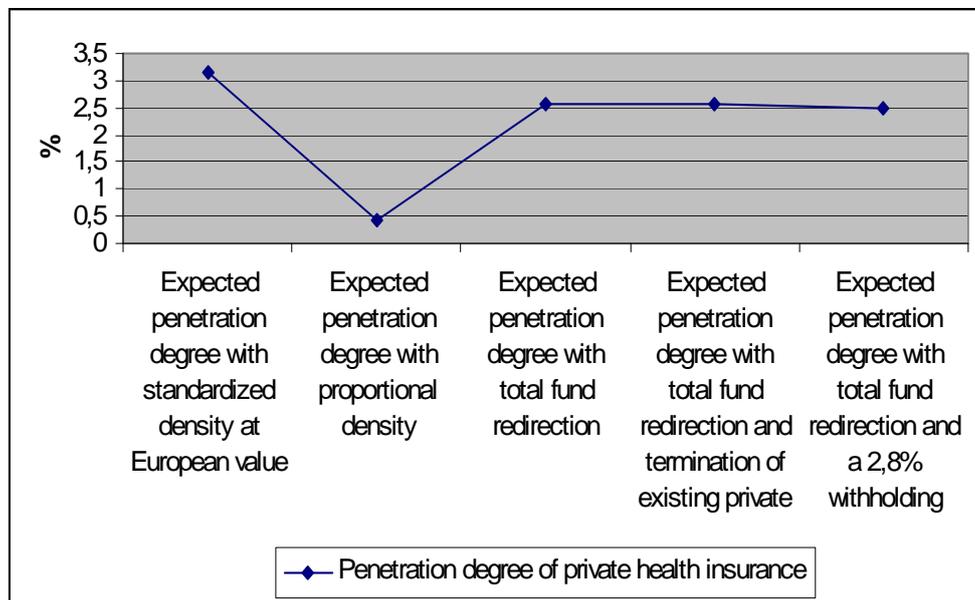
administrative costs. In this case, the total value of gross written premiums would be 12805.84 million lei and the penetration degree could reach a value of 2.49%.

Table 5. Expected insurance penetration degree under the assumption of total redirection of funds deriving from compulsory health contributions

Indicator	Value
Funds from compulsory contributions in 2010 (<i>million lei</i>)	13153.500
Gross written premiums in 2010 (<i>million lei</i>)	21.230
Expected gross written premiums (<i>million lei</i>)	13174.730
Number of inhabitants in 2010 (<i>million</i>)	21.462
GDP in 2010 (<i>million lei</i>)	513640.800
Expected penetration degree (%)	2.564
Expected density (<i>lei</i>)	613.863

Source: working of the authors based on data provided by INSSE, www.insse.ro, National Accounts Section and CSA, www.csa-isc.ro

In figure 3 we have brought together and illustrated the penetration degrees in the case of all hypotheses which have been previously discussed.



Source: working of the authors based on the results in Tables 3,4,5

Figure 3. Private health insurance penetration degree for discussed hypotheses

As shown in figure 3, the highest penetration degree in Romania would be obtained in the case of density standardization at European level, even though this situation would significantly increase the financial burden of the insured, especially if they have private insurance binding.

In such a case, the additional cost induced by the existence of private health insurance would be 753,166 lei for standardized density and 105 lei should proportionality be applied. On the other hand, the lowest level of penetration degree is obtained for a proportional density, while all forms of total fund redirection underline a somewhat constant penetration rate of 2.5%.

3. CONCLUSIONS

Even if optimum yields in terms of revenue are obtained with the first hypothesis, the absolute uniformity of the average private health insurance density at European level, it is necessary to take into account the possible effects of such an approach.

Any increase in the level of private expenditures on health may have long-term negative effects threatening the overall sustainability of the health insurance system. For these reasons, we believe that a viable alternative for a health insurance system reform should try not to impose additional costs for the insured, or at least minimize them.

Although the assumptions we have discussed can bring significant benefits in terms of resource management, while contributing to the development of the private health insurance market in Romania, up to a level somewhat comparable to that of the other European countries, the actual effects on health are difficult to quantify.

While the costs of medical services, medicines and sanitary materials are allowed to move freely on the market it is possible that none of the proposed solutions will succeed to reduce the financial burden of the state.

Under the pressure of rising costs, private health insurance might prove unsustainable, leading either to an increase in policyholders' premiums or to bankruptcy. Insolvency or bankruptcy of the insurers would entail important budgetary transfers that would be, at best, a perpetual maintenance of the already existing health system deficit.

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