

THE VOLUNTARY HEALTH INSURANCE IN BULGARIA - HISTORY, DEVELOPMENT AND CHANGES

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Abstract

The aim of this article is to show the history and development of the Voluntary Health Insurance (VHI) in Bulgaria and the recent regulatory changes. During the investigated period (2003–2012) the market increases over seven times, the number of working and licensed VHI funds grew over three times. The regulatory changes in 2013 require re-licensing and higher capital, which reduced the number of the VHI companies.

We analyze the changes in the market and how VHI funds succeed to meet the increased regulatory requirements and get a new license. The analysis includes following financial indexes of the VHI market – premium income, and the number of companies during the period.

Key words: *Health insurance, voluntary health insurance, VHI*

Introduction

In Bulgaria there are two kinds of health insurance: compulsory health insurance and voluntary health insurance (VHI). With the Health Insurance Act of 1998 a single mandatory health insurance (MHI) scheme was created (National Health Insurance Fund – NHIF). The changes of the same law from 2002 created the possibility for the creation of many Voluntary health insurance companies. The main social role of the VHI fund is to meet the health insurance needs of the portion of the population that are not happy with the mandatory health insurance scheme. VHI companies are created on the principle of self financing. The contingent of health insured people (organizations) become clients by choosing a fund by their own free will (voluntarily) between the existing VHI companies in Bulgaria. Thanks to free market principles, the best fulfillment of the health needs of the population is possible only if the VHI companies provide the best quality of health services at an acceptable to the insured price with the least hassle.

The mission of VHI fund has many important medico-social, humanitarian, ethical interactions and also has important economical implications for the client, his family and their work collective.

In the last few years the VHI funds were unsuccessful in the creation of a contemporary market of health services, despite the fact that in 2012 there are 21 licensed VHI funds in Bulgaria. The reasons for this are: the lack of tradition in the field of health care, low income of the population, the redundancies of the health services provided by MHI and VHI for which the person has to pay two health insurance fees, the informal payments for health care in the hospitals, and etc.

Regulatory Changes in Health Insurance

In 2012, there were proposals for changes to the Health Insurance Act. These proposals were adopted by the National Assembly and pledged health insurance companies within August 2013 to bring their activities in accordance with the Insurance Code and apply to the regulator for a license to carry on insurance business in general insurance. To facilitate the procedure for re-licensing business was exempt from tax.

The procedure for re-licensing of health insurance companies was needed because Bulgaria had to apply in respect of the VHI those insurance directives and the provisions on the free movement of capital enshrined in the Treaty on the Functioning of the European Union. The change was required

because, according to the European institutions voluntary health insurance is no different than insurance to cover health risks. In case of default of European legislation, Bulgaria was threatened with a fine - a risk that the country has managed to avoid.

The biggest obstacle of the re-licensing of these companies turned out to be the change of their capital. The amount of registered capital of the insurance company can not be less than 4.6 million lev. Capital must be fully subscribed and paid up to the date of application for a license. Contributions to the capital of the insurance company are cash only and can not be made by borrowing funds, unexplained or funds received as a result of illegal activity. The increase of the capital share from two million lev to 4.6 million lev has diffculted the owners. Part of the existing companies were re-licensed, other companies have teamed up to be able to meet the increased requirements, and others - out of business.

By the deadline in August 2013 the Financial Supervision Commission (FSC) has re-licensed 10 health insurance companies as insurance and managed within the statutory deadline to sublicense all who submitted papers.

Health insurance companies licensed by the FSC are:

- Health Insurance Company Bulgaria AD
- FI Health Insurance AD
- Insurance and health insurance company Hope
- DallBogg:Zhivot i Zdrave EAD
- Insurance Company Medico - 21
- United Health Insurance Fund Doverie Insurance AD
- Tokuda Health Insurance
- AД Saglasie Insurance
- OZOK – Health Insurance AD
- Euroins– Health Insurance ZEAD

FSC issued two decisions on applications for authorization of transformation by merger of a health insurance company in other existing health insurance company, namely: allow conversion through a merger of "United Health Insurance" JSC in "Euroins - Health Insurance" JSC and Health Insurance Company "Saglasie health" AD in Health Insurance Fund "Hippocrates" AD (with the current name "Health Insurance Fund Agreement" AD / Saglasie Insurance). Acquiring companies' Euroins - Health Insurance "JSC and "Health Insurance Fund Saglasie" applied and were licensed as insurers.

FSC also issued a decision on a request for conversion by joining a health insurance company in the current insurance company, namely "Generali Zakrila Health Insurance" JSC in "Generali Insurance" JSC.

A health insurance company - "Home - Health" SA received permission for voluntary redundancy.

"Health Insurance Institute" JSC complained FSC request for a license, in response to identified deficiencies, the company has not yet submitted the corrected documents.

On August 1, 2013 "European Health Insurance Fund" JSC filed documents for re-licensing, and on August 7, 2013 "Health Insurance Company - Planet" EAD, which are reviewed and receive licenses, respectively, at the end of 2013 and beginning of 2014.

Two health insurance companies - Health Insurance Company "PLC Health" JSC and "DZI - Health Insurance" JSC have not submitted documents to the FSC till the deadline most likely due to the fact that they are part of structures licensed general insurance.

Statistical data

During the period 2003 – 2012 the number of worked and licensed VHI funds grew over three times (table 1). The number of VHI funds based on published reports by Financial Supervision Commission (FSC). They are the really working companies not just have a license.

Table 1. Number of VHI funds for the period 2003 -2012

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of VHI funds	6	11	12	13	15	18	20	20	20	20

During the same period the market of VHI services grew over 7 times from 6,405 thousands levs in 2003 to 44,911 thousand levs in 2012 (figure 1). It is important to note that over 90% of the insured were in group contracts, in other words the increase is due mostly to contracts with corporate clients.

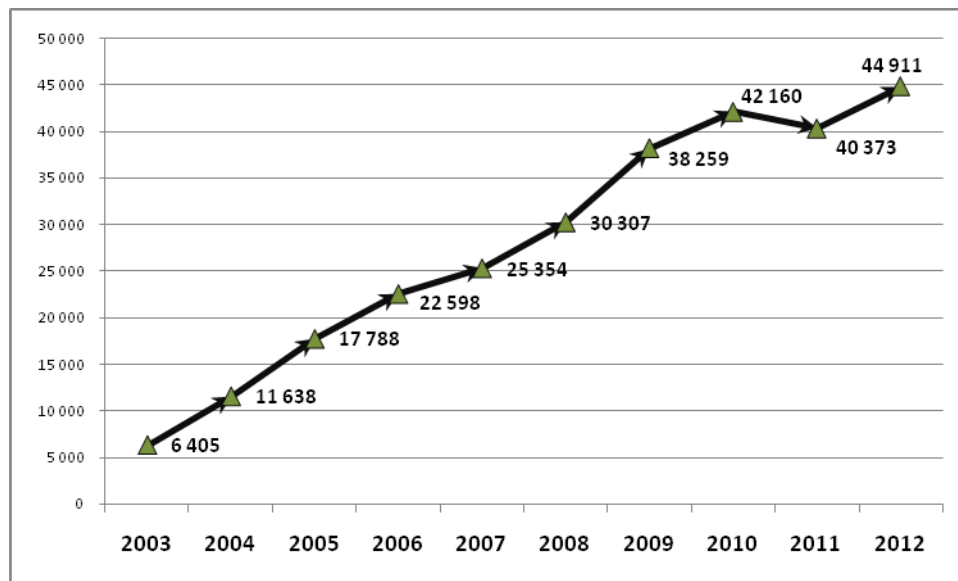


Figure 1. The VHI market - premium income in thousands of levs for the period 2004 – 2012

There are only two publications about the number of voluntary health insurance people and contracts. In the report of FSC to date 30.06.2010 the number of active health insurance contracts is 6,184 (including 3,372 newly concluded contracts during the period). The number of insured persons to 30.06.2010 is 200,886 (including 115,946 persons newly concluded contracts). In the report of FSC to date 07.08.2013 the number of insured persons to 30.06.2013 is over 197 thousands.

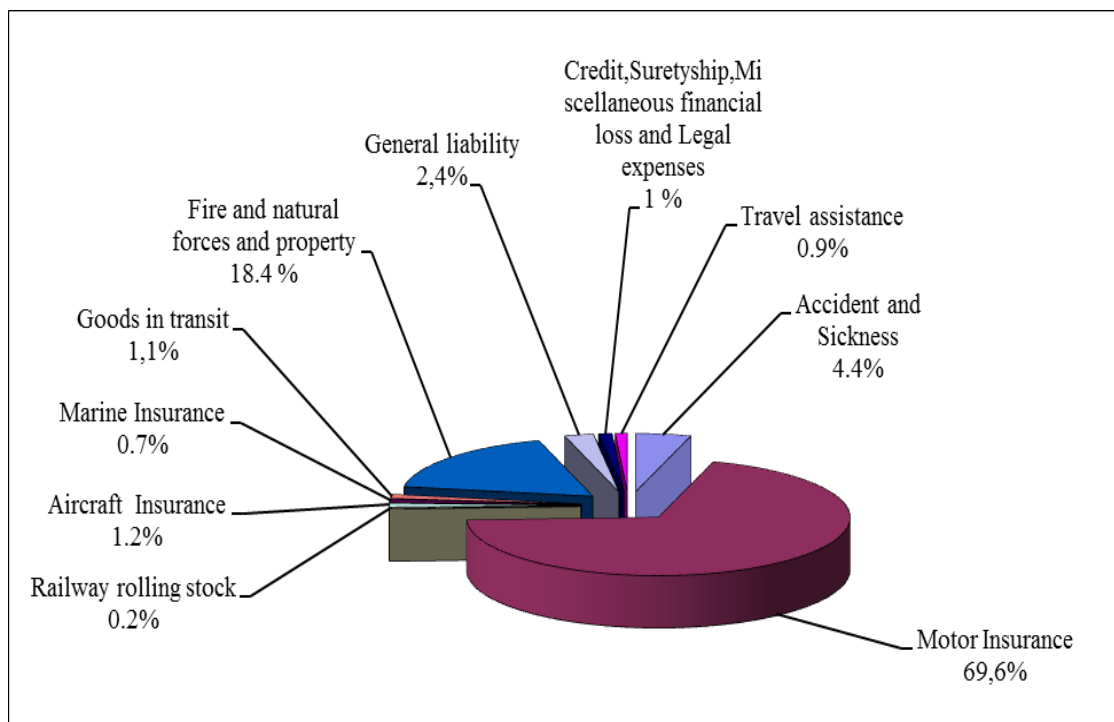


Figure 2. Structure of gross premiums written by class of insurance as at 31.12.2013 non-life insurance

As seen in figure 2, the share of voluntary health insurance is only 4.4 % of the insurance market. This is due to the fact that health insurance is a specific optional product. The company reported revenues of health insurance are 18. Recorded on 31.12.2013 health insurance premiums amounted to 36,751,149 Levs, according to preliminary data of the FSC, which is significantly less than the previous year - 44,911,483 Levs or decrease of 18.17%. Much of this reduction in premium income due to legal outfits and the subsequent processes of re-licensing, merger and failure of companies. Although single and relatively short period (less than a year) the market bears known stress and some customers away or wait to identify new market entrants, and to learn about their products.

The market of VHI has become stable and relatively predictable. It has an enviable yearly growth rate which can be seen by the overall growth of the premium incomes, for the whole market. Despite its enormous growth rate, compared to the health spending in Bulgaria it is very small. The overall VHI market has nearly 2% of the budget of the National Health Insurance Fund.

This in its own way is a proof that there is a place in the market of health services that is being occupied more and more by VHI funds. The development of the VHI market in future is possible if we realize that the specific methods for reaching this aim include: increasing the financial power of the VHI market, implementing more and more tax breaks on the clients of VHI both individual and corporate clients, legislative amendments that would put a stop to the unlicensed health insurance conducted by some of the hospitals in the country (subscription treatment), and last but not least ending the unnecessary redundancies that hinder the VHI funds.

From this article it becomes apparent, that the VHI funds have not only the desire but also the potential to take up the responsibility for a large part of the health insurance and health needs of the Bulgarian population. The increased participation of the VHI will lead to an increase in the financial income of the health system, and by implementing a wise policy would balance the interests of all participants and in turn improve access to even better health services.

As a result of the changes we expect an increase in healthcare users who are over 197,000, according to the latest data submitted to the FSC for the second quarter of 2013. They will be able to use the full range of possibilities offered so far, but will be much more protected. The quality of services will also increase, as they are set higher criteria to insurance companies under the provisions of the Insurance Code, such as higher equity increased demands on management bodies, as well as securing business with adequate information systems. Although indirectly, it is also likely to improve the quality of the health service. All legal requirements ensure consumers of the financially stable services of the admitted market companies, which are responsible and apply good business practices. As a result of relicensing it is expected the competition in the sector to be increased, as well as a large choice of consumers of insurance products.

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