

THE VOLUNTARY HEALTH INSURANCE MARKET IN BULGARIA AFTER THE CHANGES

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Abstract:

This article pertains to development of the Voluntary Health Insurance (VHI) market in Bulgaria after the regulatory changes. 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.

We analyze the VHI market after the regulatory changes. The research includes two insurance products “Accident” and “Sickness”. Objects of analysis are the following financial indexes of the market – premium income, market share, payments and the number of companies.

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.

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.

All changes related to the re-licensing of companies lead to stress on the market for voluntary health insurance. One part of the health insurance funds raise their capital according to the new requirements while maintaining positions and contracts. Other companies combine with others to meet the requirements. Third companies flow into the existing insurance companies, and insurers with a general insurance license show interest toward the market for voluntary health insurance.

Subject of this analysis is the voluntary health insurance specifically in 2014. This is the first full calendar year during which the companies operate after the changes. The data on the basis of which is realized the present study are officially published by the Financial Supervisory Commission (FSC).

In the Health Insurance Act (HIA) Art. 82 reads as follows: “The voluntary health insurance is based on a contract for health insurance within the meaning of Art. 222^a of the Insurance Code (IC)”, and Art. 222a of the Insurance Code reads as follows: “The contract for health insurance obliges the insurer to cover risks arising from Sickness or accident, related to the financial security of certain health services and goods, in exchange for an insurance premium”. In the published reports of the FSC there is no independent data on the contracts for health insurance. The FSC publishes data on the insurances according to the relevant risks and therefore in the reports the published data is on the Sickness and Accident insurance.

The voluntary health insurance is implemented by licensed general insurers, which are 30 in total. The insurers from an EU Member State operating in general insurance in the Republic of Bulgaria under the rights of establishment /branches/ are 9. Mainly the voluntary health insurance is implemented through the Sickness insurance in which are operating 18 companies. The companies that provide Accident insurance are 23. Part of the coverage of this insurance by its very nature is a voluntary health insurance. According to Annex No 1: Types of Insurance of the Insurance Code, in Section II, Item A. Types of Insurance, “Accident Insurance (including industrial accidents and occupational diseases)” is written in the first place. Therefore the health insurance that covers the risk of occupational diseases is a voluntary health insurance. The number of insurance companies that offer both insurance coverages is 13 (figure 1).

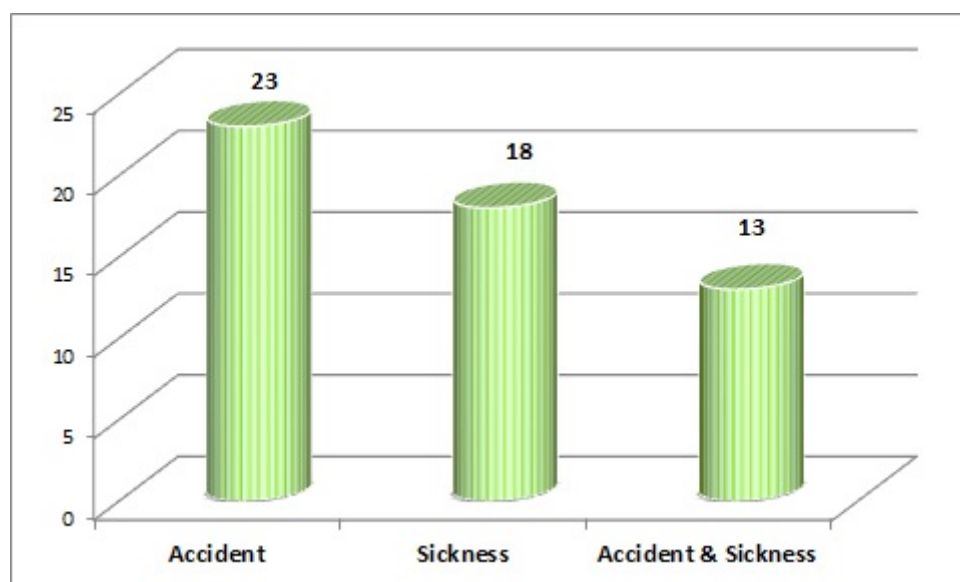


Figure 1. The number of insurance companies offered Sickness and Accident insurance.

According to Art. 11. (3) of the IC: When an insurance company is licensed only under item 2 (Sickness) or under Item 1 and 2 (Accident) of Section II, letter A of Annex No 1, the company may contain separately or in combination the words “voluntary”, “health” and “insurance” or their derivatives in Bulgarian or other language”. Therefore, in voluntary health insurance operate only the companies that are licensed under item 2 (Illnes) or under item 1 (Sickness) and item 2 (Accident). In this article we analyze the performance of these particular insurance companies, which operate in Sickness Insurance or Sickness and Accident Insurance.

The share of the Sickness and Accident insurance coverages is 5.1% of the total general insurance market based on Gross Premium Income (figure 2). Therefore, the share of the voluntary health insurance is less – 3,92 % (only a portion of the Accident insurance coverages are associated with voluntary health insurance).

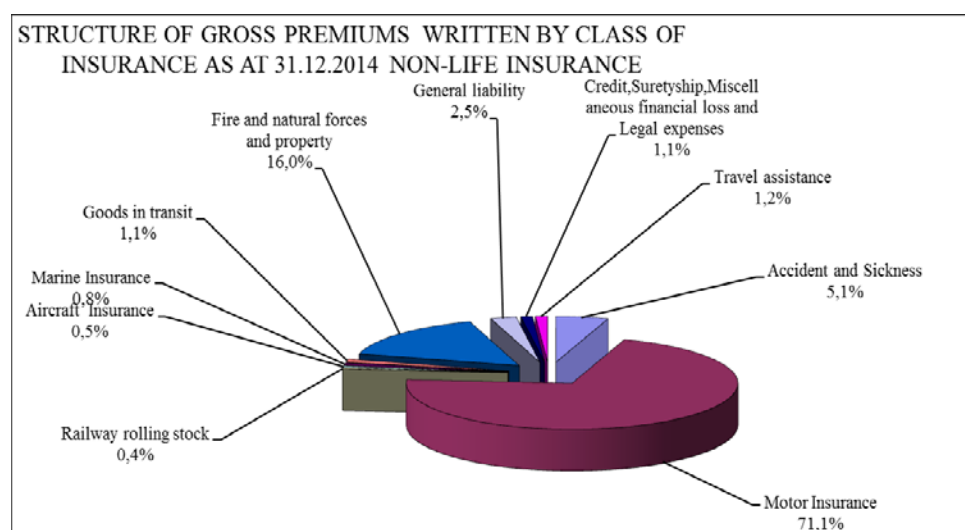


Figure 2. The share of the Accident and Sickness insurance.

The premium income of the insurance companies which operate in Sickness insurance is in the amount of 43 798 328 BGN for 2014 in comparison with 36 526 015 BGN for 2013 – the year of re-licensing of the companies and 344 364 BGN for 2012 – the year preceding the legislative changes, which include health insurance not constituting voluntary health insurance. Therefore, the premium income of the insurance companies carrying out voluntary health insurance and operating in Sickness insurance is in the amount of 43 453 964 BGN for 2014 (figure 3).

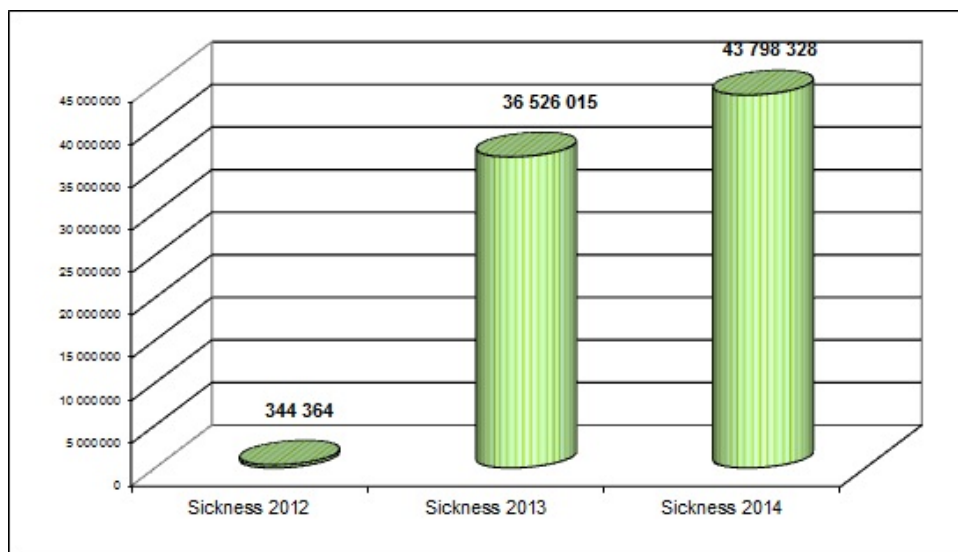


Figure 3. The premium income of the insurance companies which operate in Sickness insurance.

The premium income of the insurance companies regarding the Accident insurance (i.e. the companies operating simultaneously in Sickness and Accident insurance coverages) is in the amount of 11 203 919 BGN for 2014 in comparison with 9 168 299 for 2013 – the year of re-licensing of the companies, reported by 9 companies, and 8 934 102 BGN for 2012 – the year preceding the legislative changes, reported by 5 companies.

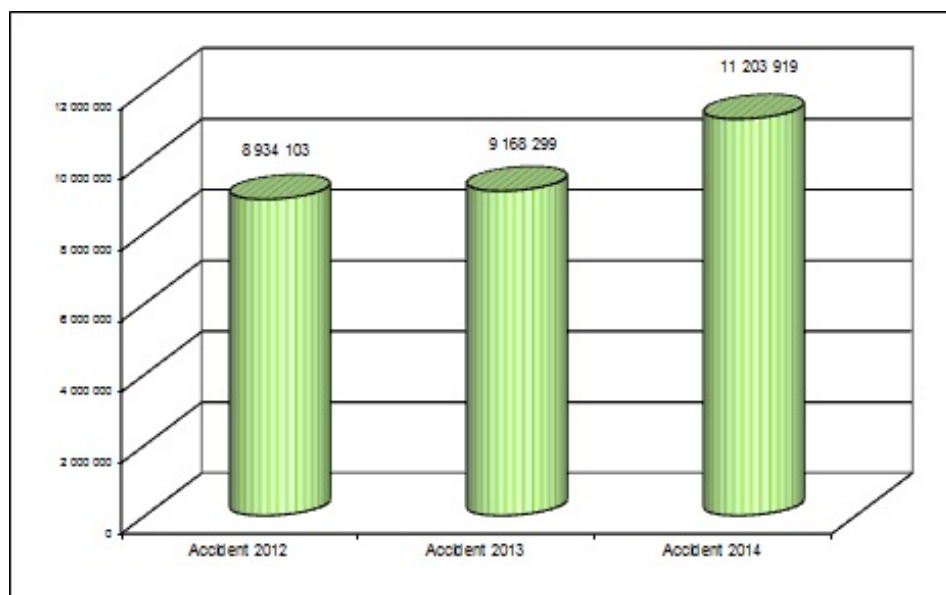


Figure 4. The premium income of the insurance companies which operate in Accident insurance.

The premium income for the period is increased by 2 269 816 BGN, which means that this is approximately the premium income on Accident health insurance. Hence the conclusion that the premium income of the insurance companies carrying out voluntary health insurance is in the amount of 45 723 781 BGN for 2014, which is confirmed by the statistics for VHI for the period from its start until the end of 2012 (figure 5).

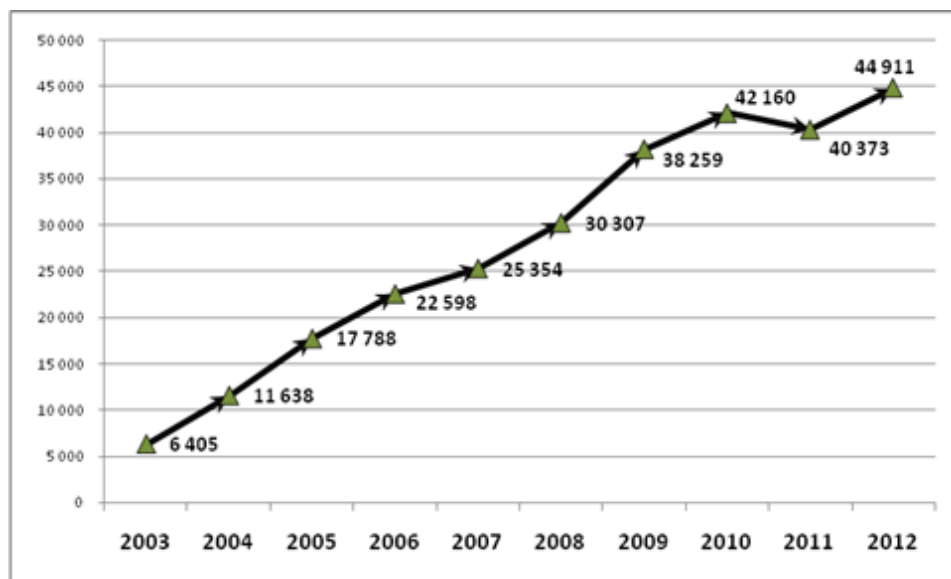


Figure 5. The VHI market - premium income in thousands of leva for the period 2004 – 2012.

The compensations paid to insurance companies that operate in Sickness health insurance is in the amount of 25 278 098 BGN for 2014 in comparison with 25 365 818 BGN for 2013 – the year of re-licensing of the companies, and 58 373 BGN for 2012 – the year preceding the legislative changes. These data are on health insurance not constituting voluntary health insurance. Therefore, the compensations paid to insurance companies carrying out health insurance and operating in voluntary health insurance is in the amount of 25 219 724 BGN for 2014 (figure 6).

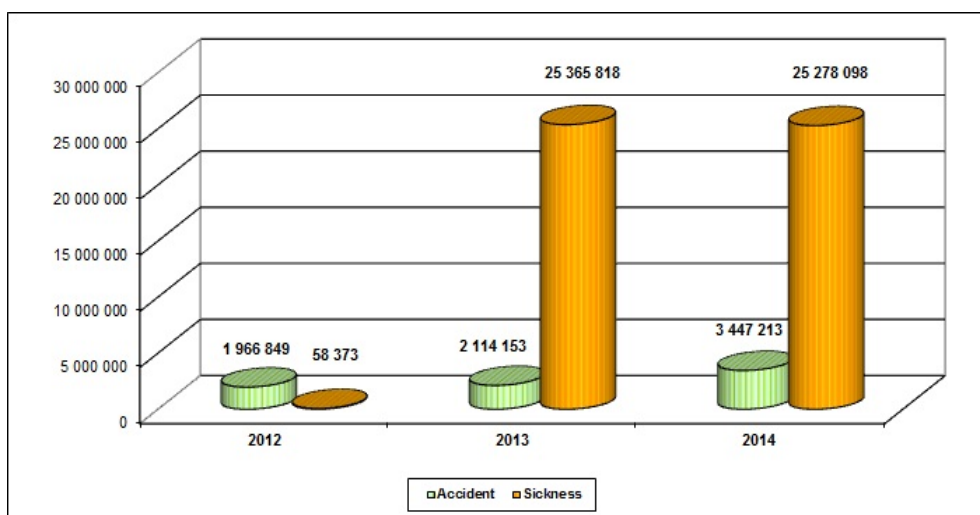


Figure 6. The compensations paid to insurance companies.

The compensations paid to insurance companies that operate in Accident health insurance (i.e. i.e. the companies operating simultaneously in Sickness and Accident insurance coverages) is in the amount of 25 278 098 BGN for 2014. For the year of re-licensing of the companies 2013 5 companies reported 25 365 818 BGN and for 2012 the reported compensations are in the amount of 58 373 BGN, again by 5 companies (figure 6).

CONCLUSION

The market for voluntary health insurance is formed as a dynamic market for health services. Regardless of the legislative changes, related to the re-licensing of the companies, which lead to stress on the market for VHI, the market continues to grow every year with impressive pace, a proof of which is the annual increase of the country's total premium income. This is clear evidence that there is a niche in the market for health services, which is increasingly and successfully occupied by the companies operating in voluntary health insurance.

Everything discussed in this article clearly shows that the insurance companies offering health insurance have not only the desire but also the necessary potential to take responsibly their part for the health insurance of the Bulgarian citizens. The increased requirements towards the companies have led to the higher quality and protection of the users of these services. The development of voluntary health insurance will increase the financial revenue in the healthcare system, and if there is a political will and sound policy that balances the interests of all health insurance participants, the health system and society of Bulgaria will have the chance to benefit from it.

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