

What should be known about Health Insurance

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The provision of voluntary health insurance in Sri Lanka was an industry monopolised by the state until it was liberalised in 1986. Hence the provision of Private Health Insurance (PHI) is limited with 98% of the health policies being available from just six insurance providers.

Costs and coverage

The number of people covered by PHI is yet small. In 1994 these insurance companies supported an estimated 8,473 policies, covering approximately 166,347 people.¹ This represents about 0.95% of the Sri Lankan population. Claims paid out by the insurance industry are estimated at Rs. 75.43 million; which is only about 1.7% of the government expenditure on patient care services, and about 1% of total national expenditures on health.

The growth of the PHI industry in terms of coverage and cost-of-premiums is shown in figure 1. Although the industry is still in its stages of infancy, the growth trends suggest potential for continued expansion in the coming years. Figure 1 also highlights the fact that cost-of-premiums has been growing faster than the coverage. This means that the cost per person of buying PHI has been increasing over the years. International experience suggests that as long as the PHI industry remains unregulated, this trend is likely to continue.

Employer-provided health insurance

It should be noted that the provision of health insurance is not restricted to the PHI industry. Many banks and state institutions have in-house Employer Health Insurance (EHI) schemes, which reimburse their em-

ployees for costs of health care. It has been estimated that 40,000 people were covered by these EHI schemes in 1980. While the expansion in the economy and formal sector employment during the 1980s would have led to an increase in these EHI schemes, there appears to be an increasing trend for employers to switch from their in-house schemes to commercial PHI group policies.

The cost of EHI schemes varies greatly. State companies tend to incur higher expenditures than private companies. The highest expenditures are incurred by the banks due to the provision of very generous benefits. In some instances of EHI, average expenses per employee (including dependents) are as much as Rs. 15,000 per year. This is fifty times greater than per capita government health expenditures, and 20 times the average PHI premium.

Government policy

The government's current policy encourages the expansion of private health insurance through tax incentives and the lack of regulation. The implicit goals are twofold: (i) To mobilise additional resources for health care. (ii) To shift demand for health care from the overstretched public sector to the private sector.

However, international experience shows that unregulated private insurance is an extremely inefficient method of financing health care. In Sri Lanka, of every one rupee collected in health insurance premiums, only 67 cents is spent in paying for medical services. The remainder is absorbed into administrative costs and profits.

Furthermore, data analysis has shown that in recent years, prices for many insurance-financed medical

services have been rising substantially faster than prices in the economy as a whole. This means that of the 67% of premiums that are spent on patient care, not all of it benefits patients. A significant portion appears to merely increase the profits of providers.

Because of the tax subsidy given for health insurance, these trends are matters of concern not only to those who subscribe to PHI but also to the public at large. More than 70% of private health insurance is provided for through employers who are permitted to deduct their premiums as expenses against corporate tax. In some cases, the implicit tax subsidy per beneficiary is already greater than average per-capita health expenditure of the government.

Who benefits ?

In a preliminary study conducted by the Institute of Policy Studies (IPS), it was found that almost 50% of those claiming health insurance were between the ages of 20-40 (the incidence of claims is highest between the ages of 25-35 with 30% of the claims being from this group).

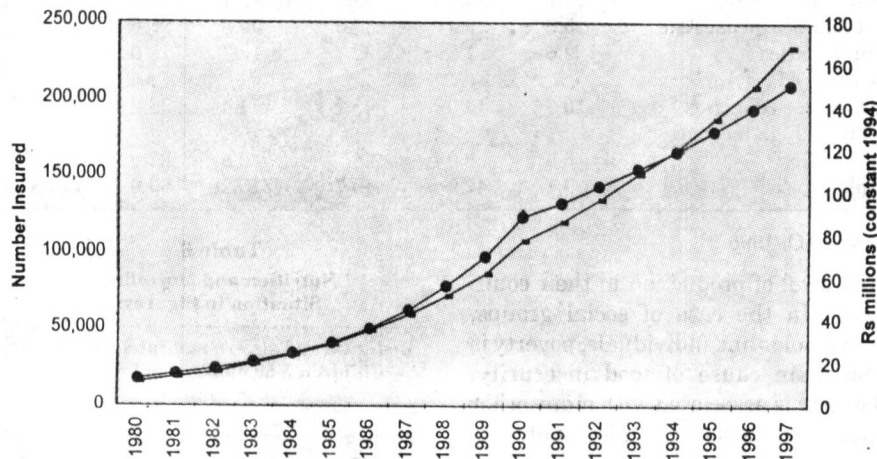
This feature is at variance to the general pattern of illness in the population as a whole - where the probability of illness is greater in the lowest and highest age groups. The variance can be explained by the fact that health insurance schemes are easily accessible to the employed (20 + age group) through group insurance coverage, while the terms and conditions result in the frequent exclusion of the elderly population.

The average cost for patient visits also showed a trend similar to the incidence of claims. This suggests that

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Figure 1

Estimations and Projections of the Cost of Premiums & Coverage in Private Health Insurance



Projections based on interpolation of past trends

Source: IPS Data

the age group which is least burdensome on the health care system in terms of occurrence and cost of health

problems is twice favoured by the PHI industry. Not only are they the most frequent beneficiaries, but their average cost per treatment-visit is also the highest. This points to a major potential problem of misallocation, if PHI is used to extend the coverage of health services. Most of the resources are allocated to the age groups that are least in need of them.

Future prospects

The major problem the industry faces is cost escalation. As seen in figure 1, the total cost of PHI has been growing faster than the total coverage in recent years. This is due to the significant problem of "moral hazard" both on the supply and demand side of health care. On the demand side there is a tendency for consumers to overutilise health services and ask for

more expensive forms of care due to the subsidisation of costs through insurance. On the supply side, providers are prone to overprescribe and overcharge for medical services, since they anticipate less price elasticity of demand (i.e. reaction or resistance to higher prices) from an insured consumer. Evidence of both the above factors have been documented in the recent IPS study.

PHI, through encouraging resource supply and demand in the private health sector, reduces the burden on the government health care system. This has made the promotion of PHI seem like an attractive strategy in terms of health policy. However, because of the provision to deduct premiums as an expense under corporate taxation, the government may eventually lose more in tax revenues than it gains from the reduced need for expenditures on the public health system. In the longer run, the major concern is that PHI will lead to price and cost escalation in the health sector, and result in a health care system that is more costly for every one. Careful targeting of incentives and strict regulation are needed in order to avoid these problems and maximise the economic and social benefits that can be derived from health insurance.

Note:

1. Exact figures for the number of people covered were available to the authors from only three of the insurance companies. For the other companies, estimates were made using the number of group and individual policies issued and the average number of people covered by each type of policies in the companies for which data were available.

Figure 2

Health Insurance Premiums

