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DEVELOPMENT OF THE VOLUNTARY HEALTH INSURANCE MARKET IN UKRAINE

Abstract. *This paper is aimed to study the development trends of the domestic voluntary health insurance market. The authors analyzed the current state of the domestic voluntary health insurance market by its types. In the study framework, the main tendencies were determined, while the relative ratios of voluntary health insurance market functioning were calculated. Health insurance has a great potential to be a promising source of additional funding for medicine in Ukraine. However, the systematization of scientific sources indicated that unresolved issues of further development of health insurance and the search for effective external funding sources for medicine in Ukraine, one of which may be the market of voluntary health insurance. This research's urgency consists of insufficient healthcare budgetary funding and low healthcare quality, provoking external funding sources' growth in national healthcare facilities such as voluntary health insurance. The study of the features of the voluntary health insurance market development was carried out in the following logical sequence: determining the relevance of the research topic; investigating the scientific background on the research topic; establishing the methodological basis; analyzing the indicators of voluntary medical insurance market development; considering the structure of health funding sources in Ukraine and some countries of Eastern Europe. The authors determined a need to develop voluntary health insurance in Ukraine as an external health funding source based on the findings. The conclusions and recommendations were formed. The study involved the methods of deduction and induction, analogy and comparative analysis, graphical method, method of statistical comparison. The research object is the voluntary health insurance market in Ukraine. The research period is 2012-2020. The obtained results indicated that the voluntary health insurance market is undoubtedly an essential component of the Ukrainian insurance market. The authors noted that it is an effective additional way for actual funding the social needs in medicine. Therefore, it calls for further in-depth study and more attention from the population. The results of this study could be helpful for scientists, health and insurance professionals.*

Keywords: insurance market, health insurance, insurance medicine, healthcare, healthcare financing, insurance premiums.

Introduction. Healthcare importance consists in the social, economic, and moral government responsibility to its citizens. Indeed, public health is a principal condition for national economic development and social welfare. With independence, the state medical funding form has prevailed in Ukraine. However, this state funding is not objectively justifiable. The lack of financial resources imposes significant constraints on developing the infrastructure of healthcare facilities (HCFs) and healthcare quality. The degradation of the Ukrainian financial and economic situation results in the state's financial disempowerment to provide citizens with quality medical services at the expense of budget funds. Nowadays, Ukraine undergoes the process of healthcare reformation to create an optimal and effective healthcare financing system. Following world experience, an alternative source of healthcare financing is

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health insurance. It stands to note that in the market conditions, reimbursing the costs by insurance funds contributes to eliminate or mitigate the impact of several unforeseen circumstances that negatively affect human health.

Although the market of voluntary health insurance in Ukraine is at the formation stage, it actively develops and increases its size. Most domestic scientists emphasized the need for further health insurance development. Thus, it could significantly contribute to the country's social and economic development. Moreover, it effectively addresses the healthcare quality and financing of the healthcare system, strengthens the material base of HCFs. All the above-mentioned emphasizes the relevance of the chosen research topic.

The main research purpose is to study the development trends of the domestic market of voluntary health insurance. The study object was the market of voluntary health insurance in Ukraine.

Literature Review. The systematization of treatises has indicated the high scientific interest in voluntary health insurance. Recently, the problems of medical care for Ukrainians is particularly acute. Incomplete healthcare reform has prompted domestic scholars to investigate voluntary health insurance as a prospective source for additional medicine funding.

Therefore, domestic researchers strongly focus on studying the foreign experience and funding opportunities for the domestic health care system. In the study (Sokyрко et al., 2018), the authors investigated the dynamics of financing the health care system at the expense of the budget and insurance companies. Moreover, they considered the main changes under the Ukrainian healthcare reform and the consequences of a full-fledged transition to the health insurance system. Furthermore, the study evaluated the experience of Estonia, the Netherlands, and the United States concerning the peculiarities of the health insurance system's functioning.

On the other hand, Zhuravka et al. (2020) compared the healthcare financing structure in developed countries and Ukraine. These scientists considered the international experience of the voluntary health insurance market, calculated the potential capacity of the voluntary health insurance sector in Ukraine.

Besides, domestic scientists paid considerable attention to the domestic market of voluntary health insurance. Thus, Sova (2018) identified the main problems of health insurance in Ukraine while emphasizing the need for voluntary health insurance. The findings determined the effectiveness and accessibility of voluntary health insurance for the population. Based on the obtained results, the researcher proposed to the public authorities and private insurance companies the measures to expand the scope of health insurance in Ukraine.

The study (Gataullina, 2018) identified the main advantages and disadvantages of voluntary health insurance. The author analyzed the performance of leading insurance companies for voluntary health insurance. In turn, Rak and Kovalska (2008) emphasized the importance of health insurance in the health care system of Ukraine. Parkheta (2017) considered the obstacles during the introduction and development of insurance medicine in Ukraine. Besides, the researcher indicated the need to reform the health insurance system and introduce insurance medicine in Ukraine. The study outlined the main tasks of health insurance in the design of social protection.

Therefore, although many studies on investigated topics, the open questions are future health insurance development and the search for effective extra-budgetary funding sources for Ukrainian medicine, particularly the market of voluntary health insurance (Shcherbachenko et al., 2020).

Methodology and research methods. This study involves the following methods to reveal the research topic:

- deductions and inductions to demonstrate the theoretical bases of health insurance;
- analogy and comparative analysis to study the indicators of the voluntary health insurance market and sources of funding for healthcare in Ukraine and some European countries;

- observation method to identify the status and problems of development of the health insurance market;
- the graphic method to visualize the general development of voluntary health insurance;
- statistical comparison for the final analysis of the collected data and summarizing the trends in the development of voluntary health insurance in Ukraine.

This study involved the report and analytical data of the National Bank of Ukraine and the National Commission for Regulation of Financial Services Markets, World Bank statistics concerning medical funding sources in Ukraine and some European countries, and data retrieved from the official website of Insurance Europe.

Results. Health insurance is insurance in failing health loss for any reason, including illness and accident. The health insurance concept provides paying one insurance fee (much less than the cost of all medical services) to get a free medical service package of qualified specialists in the private HCF during the term specified in the insurance contract. In turn, the voluntary health insurance policy determines the list and scale of hospital services and the possibility to choose the conditions for receiving medical care. Rates for health and other services of voluntary health insurance are set with the approval of the insurer and the HCF serving the insured persons. Thus, voluntary health insurance programs expand opportunities and improve preventive, medical, diagnostic, and rehabilitation care.

It stands to note that the voluntary health insurance services boost the active discussions in Ukraine. Under financial, social, and political crises, the government could not provide accessible, qualified, and high-quality medical care ensured by Ukrainian legislation and international standards. The lack of financial resources imposes significant constraints on developing the infrastructure of HCFs and health care quality. Indeed, the existing financial system of the medical sector needs urgent reform. In turn, the international experience shows that insurance medicine (compulsory and voluntary health insurance) is an effective social protection mechanism in the market. It improves the efficiency and quality of the health care system. Notably, each country has a specific health insurance form depending on the particular economic, demographic, cultural, and historical conditions which characterize the general public health and the current healthcare development level.

It stands to mention that since 2016, Ukraine started the healthcare reformation, which covers the improvement of the health care finance system, including compulsory health insurance. In the context of the above reform, the Law of Ukraine as of October 19, 2017 №2168-VIII «About the state financial guarantees of medical attendance of the population» specifies the program of state guarantees of healthcare, which determines the list and scope of medical services at the expense of the State Budget of Ukraine.

Defining state healthcare delivery guarantees is the first step towards full healthcare reform in Ukraine. The following steps were to create an optimal health insurance model through compulsory and voluntary health insurance. However, it is worth stating that nowadays, Ukraine doesn't have a comprehensive approach to reforming the mechanism for financing national healthcare based on compulsory health insurance.

Thus, compulsory health insurance implementation requires solving several state problems, which depend on the availability of political willpower, creating the appropriate financial conditions, forming and developing public consciousness. Under the absence of a mandatory form, voluntary health insurance could solve many problems such as provide additional cash flow to healthcare, raise public health, alleviating social tensions, promote socio-economic development, etc. In economic terms, voluntary health insurance is a mechanism for compensating citizens for medical expenses that are not covered by budgetary funding or compulsory health insurance.

It stands to note that the voluntary health insurance market began to form in Ukraine at the beginning of the 1990s. Herewith, since the enactment of the Law of Ukraine «On Insurance» in 1996, the first

voluntary health insurance programs have appeared in Ukraine. In turn, most of the leading risk insurance companies have started to provide health insurance in various amounts. According to the League of insurance organizations of Ukraine, the share of health insurance in the insurance portfolio of leading voluntary health insurance was over 20% in 2020. Agreements relate to corporate health insurance programs to provide a social package for industrial enterprises, commercial institutions, and the financial sector. Besides, there is an increase in demand for individual health insurance contracts since Ukrainians increasingly seek insurance services. Notably, buying a policy means that the insurance company pays all contingencies for health care. Expert doctors at insurance companies carefully monitor the process of providing medical services by HCF with contractual obligations. Purchasing a health insurance policy includes access to a wide range of HCFs around Ukraine, including commercial, departmental, and specialized.

Following the above mentioned, it is appropriate to consider the main trends in the Ukrainian market of voluntary health insurance. Figure 1 shows a continuing annual increase in gross insurance premiums and, accordingly, insurance payments from voluntary health insurance. Moreover, the market grows dynamically despite the social and economic crisis in Ukraine caused by the military conflict in the east of the country and the economic crisis caused by the global pandemic COVID-19.

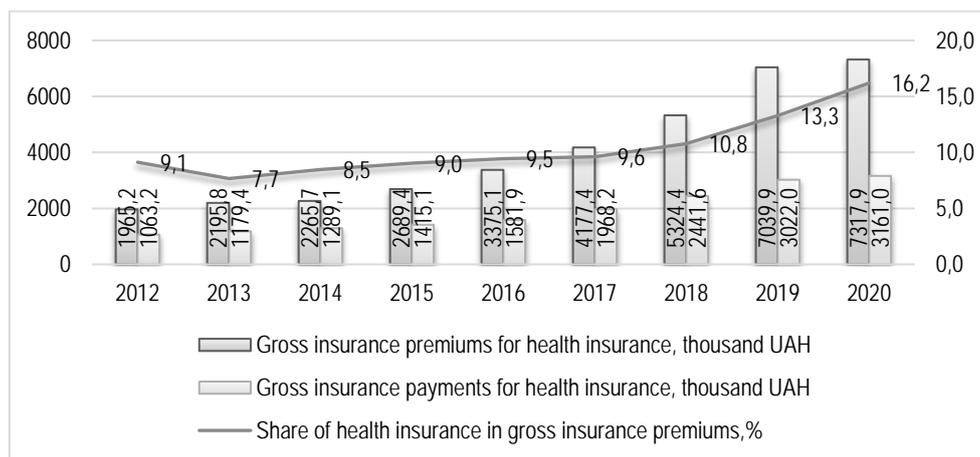


Figure 1. Dynamics of the main indicators of the developing the voluntary health insurance market in Ukraine, 2012-2020

Sources: developed by the authors based on (National Bank of Ukraine, 2021; State Commission for Regulation of Financial Services Markets of Ukraine, 2021).

The constant growth of the share of health insurance in the total amount of insurance premiums in the insurance market of Ukraine evidences the significant development of health insurance. Thus, this indicator increased from 9.1% in 2012 to 16.2% in 2020. It is worth noting that recently voluntary health insurance has been a leader in the personal insurance market segment. Thus, the share of health insurance exceeds life and accident insurance. It indicates a significant interest and growing demand for medical insurance services.

The study's next step was considering the structure of gross insurance premiums by type of voluntary health insurance (Figure 2).

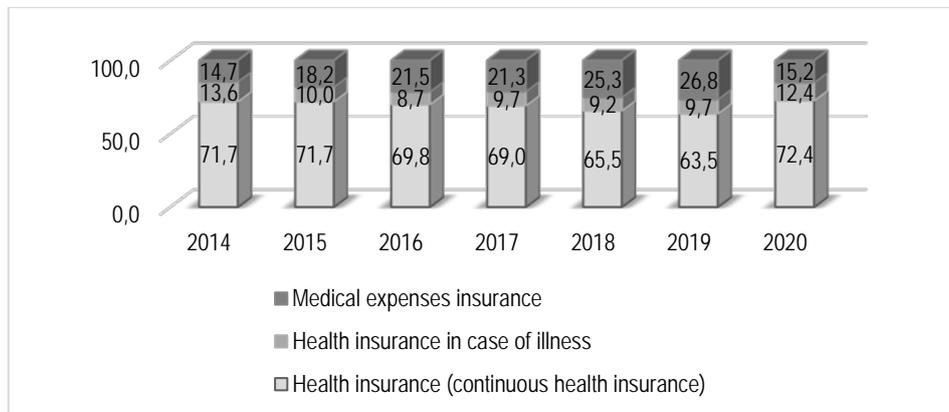


Figure 2. Structure of gross insurance premiums by types of voluntary health insurance, %

Sources: developed by the authors based on (National Bank of Ukraine, 2021; State Commission for Regulation of Financial Services Markets of Ukraine, 2021).

During the research period, the structure of health insurance changed little, if at all. The most significant demand for voluntary health insurance is permanent health insurance. Notably, permanent health insurance is a comprehensive health insurance service providing a wide range of insurance risks and medical services. Besides, it has the most significant share in the health insurance market – 72.4% in 2020.

In second place is medical expenses insurance. Its share increased from 14.7% in 2014 to 26.8% in 2019, while in 2020, it significantly decreased to 15.2%. Medical expenses insurance (or medical assistance) is a short-term type of health insurance. It provides the reimbursement of medical care costs and related additional costs caused by an insured event resulting from a sudden illness or accident of the insured person outside the resident country. The decline in demand for health insurance in 2020 is due to restrictions on traveling abroad of Ukrainian citizens due to quarantine measures caused by the COVID-19 pandemic.

In turn, health insurance covering illness has the smallest share of the health insurance market. The statistical data showed a decrease during 2014-2019 and a significant increase in 2020 – 12.4%. It is attributable to the high demand for new insurance products for individual and corporate clients to cover the COVID-19 risk.

Following the insurance market experts, the voluntary health insurance market in Ukraine is quite large, dynamic, and has high growth potential. However, its operating results correlate to the social and economic situation in the country and the social welfare (Figure 3).

A critical macroeconomic indicator of market development is the correlation between aggregate health insurance premiums to GDP (insurance penetration). The penetration rate of voluntary health insurance in Ukraine is extremely low. Although it has a positive upward trend, the highest value was in 2020 – 0.17%. On the other hand, the health insurance density indicator reflects the overall level of national consumption of medical services. Besides, this value is low, although annual growth. In 2020, the amount of insurance premium for health insurance per capita was 175 UAH. In turn, the level of health insurance payments is much higher than the market average. Moreover, in recent years, it has tended to decline.

The above analysis indicates the health insurance market actively develops. Besides, the share of health insurance in the insurance market of Ukraine is relatively high. Moreover, it is more significant than in many European countries (the share of health insurance is 12% in the structure of gross premiums of

the European insurance market). However, the amount of health insurance is incomparably tiny. Therefore, the amount of collected insurance premiums is a small share in the financing of medicine in Ukraine.

Additionally, the availability of a health insurance policy in Ukraine is the exception rather than the rule among the population. Thus, only the well-heeled may take out voluntary health insurance policies. Following the research, approximately 90% of Ukrainians do not have a health insurance policy. In turn, the significant obstacle to voluntary health insurance among corporate clients is the lack of tax incentives. Companies pay the healthcare premiums at the expense of net profit.

Therefore, all the above indicates significant potential for further development of the health insurance market and the whole insurance market. Moreover, many researchers concluded that the construction of the budget-insurance concept of the health care system in Ukraine is an urgent problem. Herewith, the voluntary health insurance market should be considered an additional source of medicine funding. Currently, the issue of finding new funding sources for medicine in Ukraine is relevant for several reasons as follows:

- healthcare reform is one of the conditions for Ukraine's integration into the EU;
- low level of public health in Ukraine;
- the development of health insurance could partially reduce the burden on the national economy in the social security system.

It stands to note that in recent years, budgetary funding for medicine in Ukraine is small – 3-3.5% of GDP, while in the European countries – 6-12% of GDP.

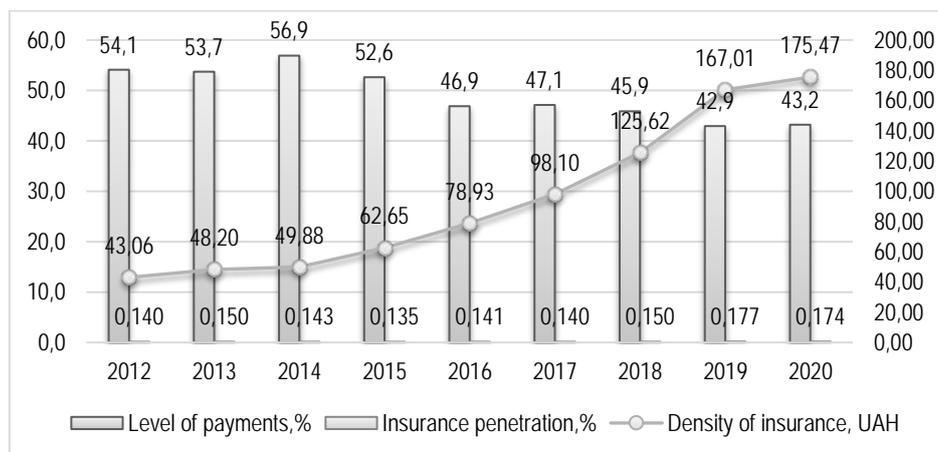


Figure 3. Dynamics of penetration rates, density, and level of voluntary health insurance payments, 2012-2020

Sources: developed by the authors based on (National Bank of Ukraine, 2021; State Commission for Regulation of Financial Services Markets of Ukraine, 2021).

The various health care financing mechanisms are divided by mandatory or voluntary. Budget funding schemes are mandatory. Notably, a compulsory health insurance system provides an alternative to budget funding. The mix of government schemes and compulsory health insurance is the basic financing mechanism in many countries. On average, approximately three-quarters of all health care costs are covered by these mandatory funding schemes.

On the other hand, voluntary elements of health care financing are domestic private health expenditure (including out-of-pocket spending) and external health expenditures. Besides, personal expenses include voluntary health insurance costs.

Figure 4 demonstrates the structure of medicine funding sources in Ukraine and some European countries (closest neighbors). The analysis involved the World Bank data on health care financing in different countries in 2018, as more late date no data available.

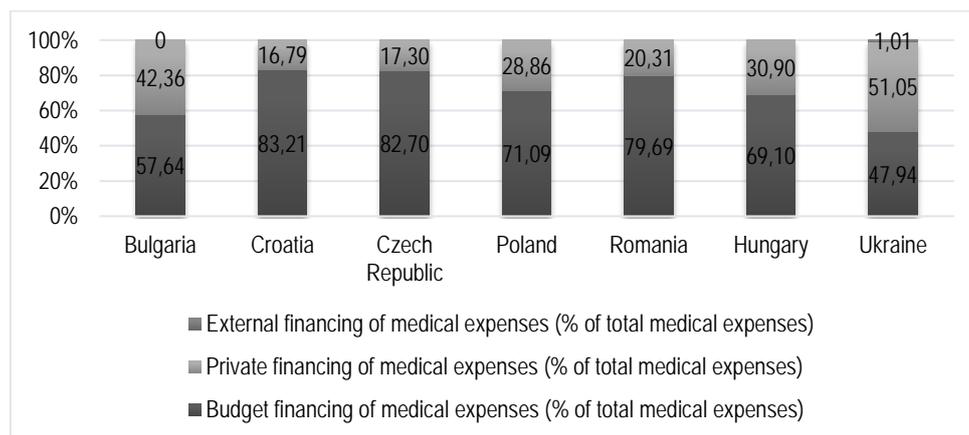


Figure 4. The structure of medicine funding sources in Ukraine and some European countries in 2018, %

Sources: developed by the authors based on (World Bank, 2021).

Therefore, budgetary funding for medical expenses is the lowest in Ukraine – 48% of total health costs. The structure of funding sources for medicine in Ukraine by year (Figure 5) indicates the share of external and private expenditures grows every year under insufficient budgetary health funding conditions. Herewith, in Ukraine, the external health expenditures have exceeded 50% since 2013.

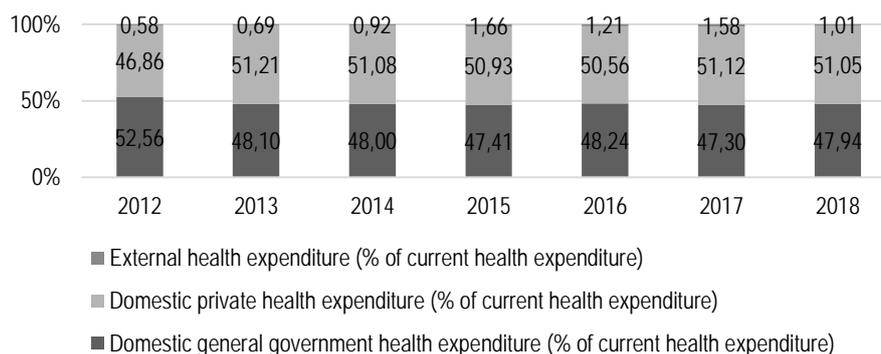


Figure 5. Structure of current health expenditure by financial resources, Ukraine, 2012-2018

Sources: developed by the authors based on (World Bank, 2021).

Figure 6 implies that out-of-pocket health spending is an essential element of health care financing – 44% to 49% for 2012-2018. Thus, Ukrainian voluntary health insurance could be instrumental in financing health care since health insurance payments are a direct expense of households. However, the low insurance culture, distrust of financial institutions among the Ukrainians, low government support for the insurance market development slow down this process.

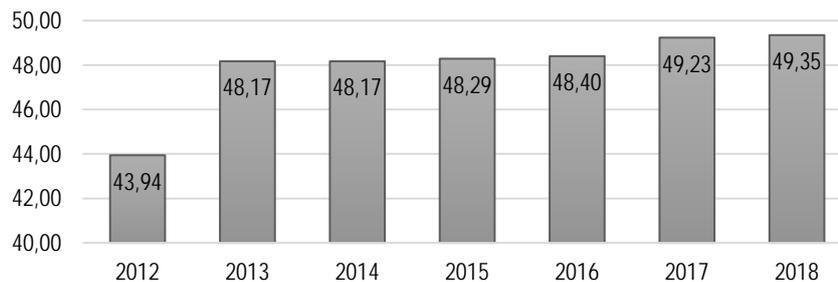


Figure 6. Out-of-pocket expenditure (% of current health expenditure), Ukraine, 2012-2018
Sources: developed by the authors based on (World Bank, 2021).

Conclusions. The conducted analysis of the voluntary health insurance market allows making the following conclusions. In Ukraine, a particular structure of the market of voluntary health insurance has been formed in the current conditions. This market develops dynamically due to the high growth rates of insurance premiums and payments. Although the share of health insurance is relatively high, the low values of health insurance penetration and density of health insurance indicate the insignificant volume of health insurance.

Therefore, for stable health insurance market development, it is necessary to develop a state development policy for health insurance as part of the general social and economic policy of Ukraine. Notably, the insufficient state medicine funding could not provide an adequate level of health care. Therefore, it is urgent to spread voluntary health insurance among Ukrainians. In turn, the promising source of additional healthcare financing may be developing the market of voluntary health insurance.

The findings showed that Ukrainians pay for medical care mostly at their own expense. Following the world experience, the voluntary health insurance market has great potential. Therefore, it is necessary to develop an insurance mechanism for financing health care. In 2020, the sociological group «Rating» surveyed 2,000 respondents aged 18 and older around Ukraine. The findings showed that the mentality of Ukrainians had changed significantly over the past almost 30 years. Thus, nowadays, approximately 60% of Ukrainians believe that medicine should be paid for partially, while earlier, the financing of medicine was purely a matter of the state. Thus, most of the population takes responsibility for organizing the medical services they need by paying for the services of private HCFs or purchasing health insurance policies.

For further effective development of health insurance, state support is needed in such critical areas as forming the appropriate regulatory framework, improving tax policy, elaborating state supervision, increasing the financial reliability of insurers, improving the insurance culture of the population.

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Розвиток ринку добровільного медичного страхування в Україні

Основною метою статті є дослідження тенденції розвитку вітчизняного ринку добровільного медичного страхування. Проаналізовано сучасний стан розвитку вітчизняного ринку добровільного медичного страхування в розрізі його видів. Визначено основні тенденції, розраховано відносні показники рівня функціонування ринку добровільного медичного страхування. Обґрунтовано, що медичне страхування може стати перспективним джерелом додаткового фінансування медицини в Україні. Систематизація літературних джерел дає змогу стверджувати, що попри велику кількість досліджень з обраної тематики, невирішеними залишаються питання подальшого розвитку медичного страхування та пошук дієвих позабюджетних джерел фінансування медицини в Україні, одним із яких може стати ринок добровільного медичного страхування. Актуальність розв'язання наукової проблеми полягає в тому, що в умовах недостатнього бюджетного фінансування системи охорони здоров'я та низької якості медичного обслуговування в державних медичних закладах України зростає значення позабюджетних джерел фінансування. Одним з основних таких джерел є добровільне медичне страхування. Дослідження особливостей розвитку ринку добровільного медичного страхування здійснено у наступній логічній послідовності: визначено актуальність тематики; досліджено літературні джерела з означеної теми дослідження; встановлено методологічне підґрунтя наукового дослідження; проведено аналіз показників розвитку ринку добровільного медичного страхування; розглянуто структуру джерел фінансування медичної галузі в Україні та деяких країнах Східної Європи. На основі проведеного аналізу встановлено необхідність розвитку добровільного медичного страхування в Україні як позабюджетного джерела фінансування галузі охорони здоров'я та сформувано висновки та рекомендації. Методичним інструментарієм проведеного дослідження стали методи дедукції та індукції, аналогії та порівняльного аналізу, графічний метод, метод статистичного порівняння. Об'єктом дослідження є ринок добровільного медичного страхування в Україні. Періодом дослідження обрано 2012-2020 роки. Результати емпіричного аналізу свідчать, що ринок добровільного медичного страхування є безумовно вагомою складовою майбутнього страхового ринку України. Автори відмітили, що сьогодні це дієвий додатковий спосіб реального фінансування потреб суспільства у галузі медицини, що актуалізує його подальше детальне вивчення з боку науковців та потребує більшої уваги з боку населення. Результати проведеного дослідження можуть бути корисними для науковців, спеціалістів медичної та страхової галузі.

Ключові слова: страховий ринок, медичне страхування, страхова медицина, охорона здоров'я, фінансування медицини, страхові премії.