Insurance Association of Cyprus

Position on the National Health System

February 5th, 2014

The Insurance Association of Cyprus

The Insurance Association of Cyprus (IAC) is the accredited and representative body of the Cypriot insurance industry, with member insurance companies operating in Cyprus accounting for approximately 95% of total written premiums.

As the leading and united voice of the Cyprus insurance market its mission is to promote the industry's views and positions to policymakers and legislators. It is also particularly active with respect to work aiming at the modernization of the sector, the continuous improvement of the level and quality of service to the public, the enhancement of consumers' trust and confidence in insurance products and their providers, and the strengthening of the institution of insurance.

The IAC is an active member of Insurance Europe, the European insurance and reinsurance federation, and represents the Cyprus Insurance market in international insurance-related organizations and fora.

The significant contribution of the Cyprus insurance industry to the national economy can be summarized in the following:

2012 Statistics

- **Total Gross Written Annual Premium € 830 million, representing 5,6% of GDP**
- **Total assets equivalent to 20,2% of GDP**
- **Investments in excess of € 1,8 billion**
- **Total Claims Incurred € 629 million**
- **Offers 4.000 full-time jobs and extensive support to insurance-related professions such as lawyers, accountants, actuaries, motor repairers, spare part suppliers, accident care firms etc.**

Private Health Insurance

Our member companies offer a variety of health insurance plans, some of which limit cover e.g. to specific diseases, whereas others offer quite extensive covers which compare favourably to established international plans. The insurance industry is the largest buyer of healthcare services in Cyprus.

Number of Insured persons	**196.061**
Number of policies	**79.332**
Cross annual written premiums	**€ 93m**
Gross claims incurred	**€ 58m**
Written premiums per policy	**€ 1.143**
Written Premium per person	**€ 472**

**2012 based on market share of 93%*

The figures below are representative of the Group Health Insurance market. They were collected from four companies representing 67% market share and reflect 2013 data for group health policies providing extensive cover for outpatient and hospitalization expenses.

Number of Policies 965

- **of which 346 policies representing 57% of premium include cover for pre-existing illnesses**
- **of which 873 policies representing 96,5% of premium extend cover to treatment abroad**

Total Insured population	**55.498**
Age group	**from birth to 70 years old**
Total Annual Premium	**€ 30.565.810**
Total number of claims	**129.664**
Total gross incurred claims	**€ 22.301.877**
Loss ratio (claims/premium)	**72,9%**
Average premium per insured person	**€ 550**
Net Profit Margin	**5%**

As the sole provider of health insurance services, our member companies have built up extensive experience, strong skills and know-how over the years. These capabilities have been additionally enhanced through partnerships with reputable foreign insurance and reinsurance firms with strong specialization in the sector, such as IHI, AXA/PPP, BUPA, etc. Operating in conditions of free competition, the contribution of health insurers to the health sector is widely acknowledged by the public and the medical profession.

The sector experienced strong growth during the past several years, demonstrating the public's trust in private health insurance. It is worth noting that even in today's harsh economic environment, health insurance is among the very few classes of insurance business that have not experienced contraction.

Concerns with current NHS plans

We are particularly concerned with recent developments relating to the NHS. A course seems to have been set that is leading to the creation of a state insurance monopoly that will not be subject to any competition and will thus deprive citizens of the many benefits that a competitive environment is conducive to, such as the continuous improvement of services, cost control, and avoidance of corruption. At the same time the proposed monopoly plan effectively wipes out an entire sector of private business activity that is healthy and adds value, and which provides healthcare insurance to about a fifth of the population as well as providing employment to thousands of families. It is odd that such a system is being pursued at a time when state monopolies are generally being abandoned in recognition of the many benefits generated under healthy competition. Why is it necessary that healthcare insurance be provided by the state when it is very successfully provided at present by private insurance companies?

We strongly believe that a successful, viable and effective NHS should be based on the following principles and characteristics:

- <u>Competition vs. State-controlled monopoly</u>
  The planned scheme promotes the establishment of a huge state insurance monopoly that will replace an existing, well-functioning sector of economic activity that has successfully provided valuable services for decades. In contrast to a monopoly, an appropriately regulated and supervised competitive environment presents the following important advantages:
    - Efficiency
    - Cost control
    - Continuous improvement of services
    - Avoidance of corruption

- Right of choice
  Every citizen should have the right to choose freely not only the provider of medical care but also the provider of insurance against medical expenses. This principle can only be secured if private insurers are allowed to compete on equal terms with the State's insurance organisation.

- Independent supervision
  Under the currently planned NHS, state monopoly is both provider of services and supervisor at the same time. The separation of roles is essential for good governance and effective supervision.

- Autonomy of public hospitals
  The transformation of public hospitals into financially independent units before the implementation of any NHS is an essential prerequisite of paramount importance. Under an NHS, state hospitals must be financially autonomous, similarly to private hospitals with which they should operate on equal terms. Otherwise, deficits will inevitably arise that will need to be funded from the government budget, creating an important vulnerability for the financial viability of the NHS. The current plan does not provide for this important measure, which was highlighted as an essential prerequisite by the NHS' own original designers.

- Financial viability
  We have serious reservations regarding the validity of the latest actuarial study's results. The areas of concern include the following:

    - While the study has adopted a top-down approach, there has been no validation through bottom-up calculations.
    - No movement analysis has been performed to validate the results.
    - The true level of private sector expenditure may be underestimated, since much of it is undeclared. The implication is that funding may prove inadequate.
    - By the study's own admission, some data are incomplete and calculations in respect to future costs are made by analogy to other data, while the underlying macroeconomic assumptions have already been superseded by a general worsening of the relevant indices (GDP growth, unemployment, etc.).

  Unfortunately, the final report on the actuarial study does not provide sufficient information to enable validation by a third party or substantiate the conclusion that the cost of healthcare in Cyprus will decline.

Proposed Amendments to the NHS

As the obligation of the government under the economic adjustment program to introduce a NHS is driving rapid progress on the matter, we have submitted a framework proposal to the government that suggests a number of modifications to the existing design. These modifications seek to address the shortcomings that we have identified and to introduce improvements.

While maintaining the government's declared objectives and the key principles of the current proposal for the NHS, such as universality and solidarity, our proposal introduces conditions of competition, free choice and effective supervision in order to take full advantage of the extensive experience and capabilities of the private health insurance sector that enable optimal management of operating costs, continuous improvements through healthy competition and limitation of corruption and misuse of funds. It is worth noting that our suggestion substantially reflects similar approaches followed in other EU member states that have met with considerable success.

The salient characteristics of the proposed modified NHS are as follows:

1. **Universal access**

   All citizens of the Republic will be required to obtain health insurance cover by law and will be given the choice of acquiring it either from a public health insurance organization or from an insurance company of their preference. Citizens will not only be entitled to choose the health insurance provider of their choice, but also to change providers in case they are not satisfied with the service provided, without being concerned that they may be denied cover elsewhere. It is important to note that insurance companies will be under an obligation to insure citizens irrespective of their medical record or age.

   This approach creates conditions that promote competition between all health insurance providers, public and private, on the basis of cost and – mainly – quality of service.

2. **Basic compulsory cover**

   Health Insurance providers will be obliged to offer the minimum basic insurance cover as this will be determined by law. They will be allowed to offer supplementary insurance cover thus enabling consumers – if they so wish – to tailor the breadth of cover according to their needs by paying a supplementary premium.

   Each individual health insurance provider will be allowed to set the premium for providing the minimum basic cover. The premium that the provider sets must

apply uniformly to all citizens seeking the minimum cover, irrespective of their medical record or age. In this way, health insurance providers, public and private, will be under competitive pressure to reduce costs and improve the quality of the services provided in order to attract as many participants as possible.

3. Funding

Each citizen will contribute towards the NHS in proportion to their income through a common Fund. All citizens paying this contribution acquire a right of minimum basic insurance cover from the provider of their choice, the value of which will be determined by the supervisory authority (nominal premium) in cooperation with the health insurance providers. If a citizen wishes to acquire cover from a provider who charges a premium that is higher than this value, he/she will have the right to switch providers by paying the premium difference.

The Common Fund will reimburse health insurance providers on the basis of the number of insured members. Moreover, it will compensate providers that find themselves burdened with a disproportionately high level of insurance risk, given that the envisaged regime requires providers to accept any citizen irrespective of age or medical record. The setting of the level of the nominal premium and of the mechanisms for equalizing risks will be fundamental for the sustainability of the system; hence we propose that it be the product of extensive consultation between the health insurance providers and the supervising authority, with full transparency concerning the data employed.

4. Supervision

We strongly disagree with the current proposals regarding supervision where the providers (Health Insurance Organisation) are also supervisors and regulators. We suggest the establishment of a truly independent supervisory authority. We propose that there be clear separation between the regulator, supervisor and health insurance providers, with clearly defined duties and responsibilities. We propose among others the supervisory authority to:

- Submit suggestions, within the bounds of the relevant legislation, for the breadth of the compulsory minimum basic cover and nominal premium;
- provide the infrastructure necessary for the effective operation of the scheme, i.e. a computerized system to which all health insurance providers will have access, and oversee the creation and maintenance of the electronic health records and the collection and analysis of data;
- coordinate a system of pooled purchasing that will ensure the best prices for healthcare services from all providers (doctors, hospitals, pharmaceutical companies) with a view to incurring the lowest possible cost, thereby avoiding the fragmentation of the market and exploiting economies of scale;

- ensure that the cost of insurance plans offered by health insurance providers remains at reasonable levels so as to be sustainable;
- submit suggestions regarding the level of any co-payments so as to limit the abuse of healthcare services;
- ensure the proper functioning of an effective complaints-handling mechanism;
- collect and analyse statistical information and inform the public, so as to ensure that their decisions are taken on an informed basis;
- undertake assessments and suggest possible improvements of the system;
- monitor competition and prevent any concerted practices or the formation of cartels;
- ensure that health insurance providers, public and private, operate in a level playing field.

The supervision of private insurance companies will remain with the Insurance Companies Control Service (ICCS), according to the existing insurance legislation. This supervision will be exercised on the basis of the new Solvency II Directive of the EU, the full application of which is scheduled for 1/1/2016. The obligation of insurance companies to comply with the requirements of this new Directive means that they will maintain a level of solvency capital that is adequate for the risks that they have assumed. This ensures that insurance companies will be in a position to fulfil their obligations towards their customers with a very high degree of confidence.