



The Contribution of Private Medical Insurance

IMPROVING THE HEALTH OF THE EUROPEAN WORKING POPULATION



CEA

COMITÉ EUROPÉEN DES ASSURANCES

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FOREWORD

A number of key challenges facing society can only be addressed effectively if public authorities and the private sector work hand in hand. The health of the European working population is one of these challenges. The aim of this report is to show how private insurance can contribute to facing this challenge.

The European Private Medical Insurance (PMI) industry would strongly recommend, amongst others:

- the promotion of initiatives aimed at raising awareness of the coverage of healthcare costs;
- avoid regulatory initiatives at EU level which would be very difficult to be implemented given the diversity of European schemes throughout Europe;
- encouraging employers to develop workplace health programmes in partnership with insurers.

We hope that this paper will encourage decision-makers from the public authorities and industry to talk to each other and to take appropriate action.

More can certainly be achieved if initiatives taken at EU level are combined with those of the Member States.

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The report was launched by the CEA Health Committee under the Chairmanship of **Dr. Julián Ruiz Ferrán** (Sanitas). ■

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1. THE CHALLENGES AHEAD



Across the EU, sluggish economic growth, demographic change, advancing medical technology, as well as the ever-increasing demands of citizens are putting pressure on public healthcare budgets.

Private medical insurance (PMI) can help to meet these challenges successfully by miti-

gating demographic effects, taking care of people (at work and at home) and fuelling innovation into medical technology. Insurers, employers and other stakeholders working together can help more sick and injured employees to get back to work faster with improved occupational health cover. ■

1.1 Demographic changes put societies under pressure

The ageing of the EU population is mainly driven by two different trends: the fall in the birth rate and the increase in life expectancy.

According to the report of the High Level Group chaired by Mr. Wim Kok, ageing could cause potential annual growth in GNP in Europe to fall from 2-2.25% today to 1.25% in 2040.¹ This would directly impact the attainment of the new Lisbon Strategy goals.

An additional factor is represented by the number of people who have dropped out of the workforce due to long-term illness. Early intervention and rehabilitation could significantly reduce this undesirable drift.

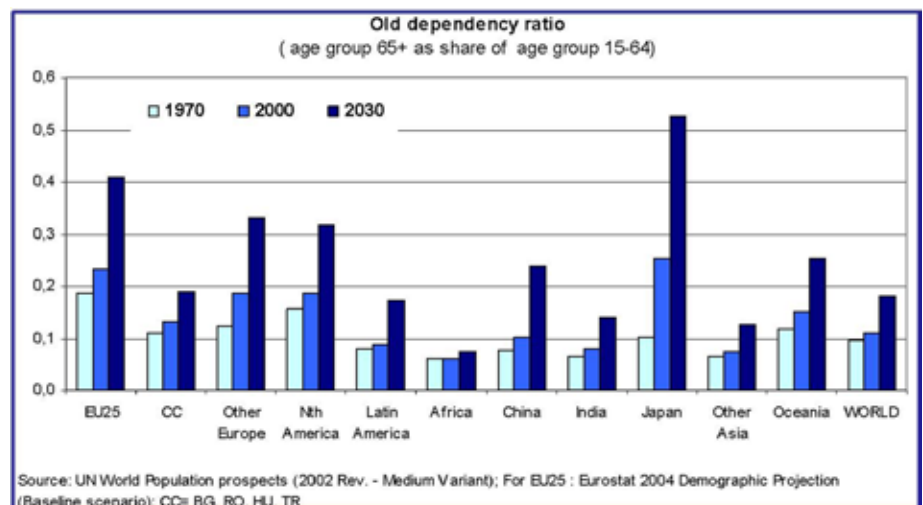
Demographics affects healthcare financing as well. The cost of supporting elderly

people will increase in line with the old age dependency ratio.

While there are now 4 people in working age to support each pensioner, by 2030 there will only be a little over 2. As a result, direct solidarity between generations through Pay-As-You-Go financed systems is coming under considerable pressure.

Without change, today's and tomorrow's working population will be paying for the heavy medical bill of a far larger group of pensioners. ■

¹ Communication from the Commission, Green Paper 'Confronting demographic change: a new solidarity between the generations', 2005, http://europa.eu.int/comm/employment_social/social_situation/green_paper_en.html



1.2 Healthcare expenditure as a percentage of GDP is rising

Top priority in every Member State is to guarantee access to quality healthcare when health spending levels rise faster than GDP. Healthcare spending will also need to increase to cope with the increasing health needs of an ageing population.

This is not the only factor, however. Most scientific research supports the idea that innovation in medical technology and treatment is pushing public health expenditure to higher levels as well.²

Although medical technology may well reduce costs in some cases, many innovations result in higher expenses. Good oc-

cupational health schemes can keep more people at work, reduce benefits bills for governments and make business more productive and competitive.

Innovative healthcare is a positive stimulus for the European economy and fits the objectives set by the Lisbon Agenda. In order to fuel this innovative power, policy makers need to think about how to allocate sufficient resources in healthcare when public budgets are tight. ■

² Federaal Kenniscentrum voor de Gezondheidszorg, 'Evolutie van de uitgaven voor gezondheidszorg', 2005, <http://www.kenniscentrum.fgov.be>

1.3 Lisbon: the need for a healthy and productive workforce

The Lisbon Agenda sets out the need to build an "internationally competitive economy that is capable of sustainable economic growth with more and better jobs and greater social cohesion". As much of the daily effort to meet this impressive challenge will have to be generated by employees and entrepreneurs: their health and safety deserve special attention.

The European Commission is well aware of the importance of a healthy and productive workforce.³ It has stressed before how a safe and healthy working environment is a key performance factor for quality at work, for the economy and for companies.

In economic terms, the "non-quality" of work is expressed in loss of productive capacity: in 1999, the EU lost 500 million

working days as a result of accidents, disability or health problems.

Absence from work has a deteriorating effect on the life quality and satisfaction of the absentees and it is costly for employers and social security systems. Governments, insurers, trade unions and employers should work together to reduce absence from the workplace.

Insurers are key partners of employers to set up occupational health policies.⁴ The direct benefits for employers and employees are clear. There are also macroeconomic benefits for society as a result of improved competitiveness and productivity. ■

³ & ⁴ DG Employment, 'A quick guide to EU employment and social policies', 2005, http://europa.eu.int/comm/employment_social/

1.4 The need to retain an ageing workforce and reduce early retirement levels

The demographic challenge necessitates the retention of older employees in the workplace and a reduction in levels of early retirement.

The provision by employers of good workplace health programs will allow more people to stay on in the labour market and will reduce early labour market exits due to illness. ■



2. PRIVATE MEDICAL INSURANCE: PART OF THE SOLUTION



The economic and social challenges related to the coverage of all EU citizens are substantial and there are no easy answers on how to cope with this.

PMI is in an excellent position to make a real and significant contribution to the economic and social challenges that the financing and management of healthcare implies.

Insurance can play a key role in the employer-employee relationship, taking the responsibility for occupational health programmes to facilitate a quick return to work of employees. For return-to-work rates to improve, policymakers must work in partnership with employers and insurers to develop the occupational health sector.

Although both public financing and private health insurance improve the accessibility and choice of healthcare, they are different. National health services and social insurance schemes rely on State imposed taxation and social contributions.

This also means that healthcare is allocated regardless of employment status risk profiles, long term obligations or consumer demand. Public schemes have special responsibilities with regard to access and comprehensive cover.

Some private health insurance is purchased by individuals and equality arrangements vary from one Member State to another. A significant portion is also purchased by employers to meet the specific needs of their workforces. ■

CONTEXT: WHAT IS INSURANCE ?

Insurance¹ offers financial protection for an individual, company or other entity in the case of unexpected events. Some forms of insurance are required by law (e.g. motor third-party liability insurance), while others are optional.

In exchange for payments from the insured (called premiums), the insurer agrees to pay the policyholder or the victim a sum of money, to provide him with a service or to compensate the damage upon the occurrence of a specific potential event.

The notion of mutualisation is essential. The insurer must be able to attract enough policyholders for the risk to be well spread. Some people will pay for their insurance and never have a claim. Others will be largely compensated for their losses in return for a premium which forms a limited proportion of these losses.

Calculating the probability of the insured event occurring as well as estimating its cost is a crucial point. Here, the collection of statistical data and information on risk profiles is essential to allow actuarial calculations. Since funds are not unlimited, insurers have to analyse very carefully which risks they can cover and whether they can do so at reasonable tariffs. Premiums are set depending on the answers to such questions.

Is everything insurable? It is difficult to draw the

borderline between insurability and non-insurability as it is left to the individual insurer to provide coverage or not.

In principle, a risk is insurable² notably if:

- Its probability and the scope of future claims are quantifiable.

Example: Insuring the risk of a new disease is impossible when no reliable data or experience is available.

- Its future occurrence is uncertain.

Example: Insuring a house is impossible when the roof is on fire.

- The pool is large and diversified enough for a stable balance to be maintained between actual and merely potential claims.

- It corresponds with the financial strength of the insurer or insurance sector.

Example: Nuclear accidents may cause extraordinary damage that is too heavy for the insurance sector to bear. ■

¹ Please note that terms like insurance and insurers all refer to private insurance. Social security refers to public schemes or schemes that are managed by a public body.

² For further details, please refer to the CEA note Insurability and new liability risks, 2004.

3. RECOMMENDATIONS TO EUROPEAN POLICY MAKERS

The European PMI industry would like European policy makers to:

- promote education and information initiatives to raise awareness about healthcare and private healthcare financing;
- foster the development of public-private partnership (PPP) programmes;
- avoid regulatory initiatives at EU level which would be very difficult to be implemented given the diversity of schemes throughout Europe;
- create a balance between the generations, in sharing funding needs deriving from health-related expenditure.⁵ Governments

may find sound solutions that maximize the benefits of public systems and private insurance by taking into account both their limits and strengths;

- to encourage employers to develop workplace health programmes in partnership with insurers, for example by providing fiscal incentives for employers. ■

⁵ Communication from the Commission, Green Paper 'Confronting demographic change: a new solidarity between the generations', 2005, http://europa.eu.int/comm/employment_social/social_situation/green_paper_en.html



Private Medical Insurers are willing and perfectly capable of joining forces with national governments for the sake of a comprehensive and balanced healthcare coverage for European citizens.



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The Comité Européen des Assurances (CEA) is the European Insurance Federation. Over 93% of domestic insurance business in Europe is covered by CEA's 33 national member associations.

CEA represents more than 5000 European insurance and reinsurance companies which generate a domestic premium income of 927 billion Euros, employ over 1 million people and invest 5800 billion Euros in European economy.

CEA promotes the views of the European Insurance Industry both on EU and International levels in order to ensure a regulatory framework which benefiting consumers while allowing the effective functioning of the insurance industry.

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