

# The Evolution of the Health Insurance Market in Romania

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**Abstract:** *Employee benefits are an excellent method for a company to show appreciation towards its employees and incentivize them to be more productive. In terms of medical benefits, the most popular ones are health insurance and medical subscriptions and the number of companies offering them increases each year. Eight out of ten employees access the medical benefits offered by their employer, whether it is insurance or subscriptions to private clinics. The industry with the highest proportion of participating companies which offers medical benefits is IT. According to this study, health insurance is much more appreciated among employees, as it provides comprehensive medical coverage and offers quicker access to medical services without additional costs.*

**Keywords** – *health insurance, employee benefits, risks, incentive strategies, productivity*

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## I. INTRODUCTION

Many wise individuals have referred to insurance in their contemplations over time. One possible reason is represented by the concern of the population for the future. In order to continue its development, humanity has always been concerned with predicting and then defending against what it has identified as capable of causing damage or suffering: enemy attacks, accidents or natural disasters and even death.

I consider that the economic power and growth of a country lie in the banking and the insurance system. The banking system facilitates the circulation of money mass, similar to how the arterial system of the human body transports blood throughout the organism. Similarly, the insurance one ensures that everything functions within normal parameters: covering losses allows for the reconstruction of destroyed goods and assures the continuity of the process.

Insurance helps society progress, a fact also noted by British Prime Minister Winston Churchill who stated: "If it were up to me, I would write the word 'insurance' on the door of every house and on the forehead of every person because I am convinced that for sacrifices inconceivably small, entire families can be protected against disasters that could otherwise destroy them forever... Only then would I be satisfied, as insurance protects the family in the event of the emergence of an irreparable calamity...".

By using this analogy, Churchill highlighted the straightforward nature of insurance as a means of safeguarding individuals or objects against potential harm. He noted that paying insurance premiums represents a significant amount from every citizen's budget, but the benefits make this investment worthwhile, as every family needs protection. In the end, the sum paid will prove to be small compared to the possible costs in case of damages. Furthermore, by contracting insurance policies by as many people as possible, we adhere to the basic principle of insurance, that of spreading the risk among a larger number of individuals. A large population receives insurance policies and pays premiums to the insurer. Whenever a loss occurs, it is compensated from the funds collected from all policyholders.

## II. LITERATURE REVIEW

### Conceptualization

Insurance is a complex mechanism and therefore difficult to define, which has led specialized literature to present various points of view regarding this notion.

According to economist W.A. Dinsdale, insurance is a tool through which risks are transferred from entities to an insurer. In exchange for a commission, the insurer agrees to assume the losses of the insured, but within certain established limits (Dinsdale, 1946).

Nicolae Lungu considers that insurance represents economic relationships in monetary form, established based on a contract, through which risk is transferred from the insured to the insurer (Lungu, 2003).

The word "risk" is a commonly used term in the insurance market. This word emerged in the 16th century, originating from the Italian word "risco", which in turn comes from Latin "riscum", meaning a rock in water. Rocks represented the main danger for a commodity at sea, given the risk of the ship sinking.

The definition of the insurance market may vary in different countries and regions due to changes in market structures, legislative frameworks, cultural norms and economic conditions. While the fundamental principles of insurance remain unchanged, the characteristics and specific dynamics of insurance markets can differ significantly depending on local factors.

In essence, an insurance contract can be defined as a contract in which one party (the insurer), in exchange for a premium, undertakes to indemnify the other party (the insured), in case it suffers losses. The best definition can even be summarized by the title of economist Bart Baker's book - "If an Elephant Sits on You, Are You Covered?", where the elephant can be represented by the risks we expose ourselves to and whose impact we can reduce by contracting insurance (Baker, 2014).

**Figure 1. Insurance characteristics**



*Data source: "Insurance Economics"*

### **The early days of the insurance**

The earliest initiatives to mitigate losses through risk dispersion belong to Chinese merchants who distributed their goods among multiple ships to be transported across the turbulent waters of the planet. There is evidence of primitive insurance practices dating back to the time of the Babylonians (around 2250 BC), who had the possibility to not repay loans if the ship or the cargo suffered damages (Insurance Bureau, 2023).

As civilizations progressed, these loan mechanisms underwent refinement, resulting in the establishment of collective funds through the pooling of financial resources by merchants. They usually resorted to such practices when their goods were part of the same transport, aiming to prevent significant losses during the journey in case of an incident. The same procedure was used in the case of the earliest forms of life insurance, established to assist families in the event of the death of a member (Ciurel, 2000).

An explanation for this pronounced development in the 7th-6th centuries BC is provided by author Robert de Smet in the work "Traité Theoretique et Pratique des Assurances Maritimes": "Primitive men did not discover the need for insurance, considering themselves protected by family or tribe where mutuality itself, as in insurance, was a reality. This was not true in the ancient civilizations of Egypt, Phoenicia, Greece, and Rome where the individual was seen as exposed to many risks without the protection of the family community" (Smet, 1959).

The close connection between trade and maritime navigation may prove why maritime insurance was among the earliest forms of insurance. This can be explained by considering that for a long time, those who owned the goods were also the owners of the vessels. Therefore, a single insurance policy covered both the cargo and the ship. Later on, specialization determined mainly by the evolution of trade led to a differentiation of the persons holding property rights over the goods and the ships, respectively. Thus, two forms of insurance

appeared - two types of insurance contracts, depending on the purpose: ship insurance and cargo insurance (Bibicescu, 1983).

In 1666, following the Great Fire of London, over 13,000 houses were destroyed. This event is recognized as the starting point of insurance as we perceive it today, as in that year, the economist Nicholas Barbon opened his first office dedicated to buildings' insurance. 14 years later, he founded the first fire insurance company in Britain, called "The Fire Office" (Trennery, 1926).

The reference year for modern insurance in Romania is 1871 when the "Dacia" society was established by royal decree, followed by the "Romania" society in 1873. After eight years, the two societies merged to form the "Dacia-Romania" society. Subsequently, other societies such as Națională, Generală and Agricolă appeared (Bercea & Vacarel, 1995).

### **Insurance as benefits for employees**

In today's world, access to the necessary capital for investment is much easier. Therefore, I consider that the most important resource is represented by people. Thus, certain benefits for employees have been created, consisting of insurances, which aim to increase their satisfaction, level of involvement in business results and loyalty to the company.

In addition to reducing the risks to which the entity could be exposed, retaining the best specialists and increasing employee productivity, companies can benefit from tax exemptions by granting these benefits on the territory of Romania. Their effect will be a reduction in expenses if we were to compare the granting of benefits with a salary increase. Moreover, due to contracting the benefit for a group of individuals, the individual cost will be lower than if each were to contract the service separately.

Types of benefits that can be granted:

- health insurance;
- life insurance;
- group accident insurance;
- insurance for travelling abroad;
- private pension.

### **Private health insurance**

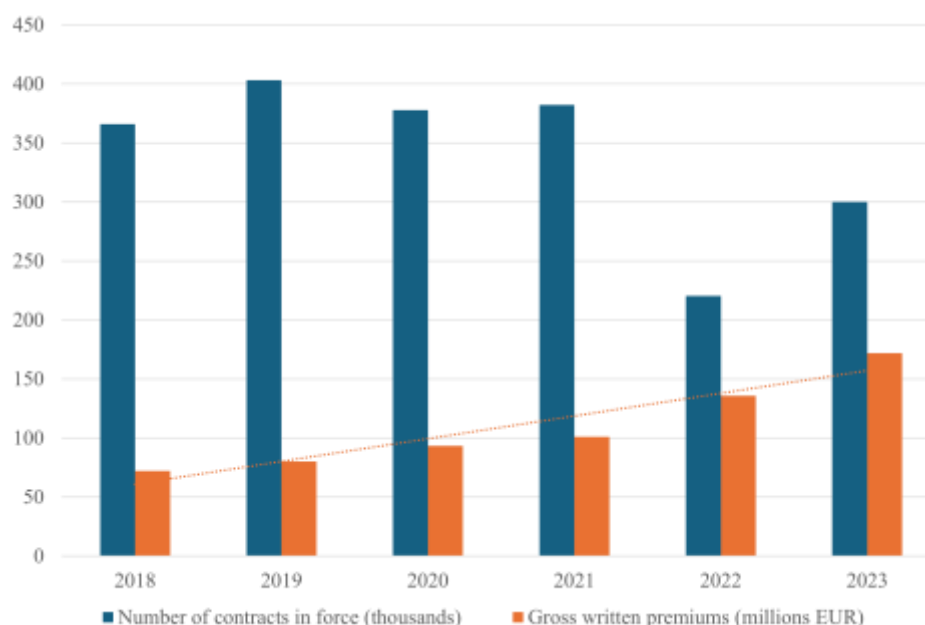
Private health insurance constitutes an optional system, supplementary to the mandatory health insurance system. Their purpose is to cover the medical needs of the insured and to comply with the legislation regarding the organization of the social health insurance system.

The main pillar of private health insurance consists of solidarity and risk dispersion – individuals regularly pay an amount of money to benefit from medical services when needed. The main differences between private health insurance and social insurance are related to the conditions for inclusion in insurance and the method of determining payments and benefits. Additionally, enrollment in private health insurance systems is optional (voluntary).

The size of premiums for private insurance is correlated with the health status of the insured individuals, including the risk of illness, thus not considering the principle of equity. Based on this criterion and the ability to pay, private insurance companies create diverse benefit packages for their clients. This leads to one of the possible disadvantages of this system, the presence of "adverse selection", consisting of the fact that only those insured individuals with a high risk of illness are chosen, resulting in huge premium rates. There is also the flip side, where only "good risks" are selected, and only individuals with a lower probability of becoming ill are chosen (Scintee, 2016).

The insurance market in Romania has a very high development potential, which could bring numerous benefits to all the players involved: the healthcare system, the insured individuals and the private insurance sector, due to its lower level of development compared to other European countries.

**Figure 2: The evolution of the health insurance market in Romania**



*Data source: created by the author based on the information from the Financial Supervisory Authority*

### III. METHODOLOGY

In conducting this study, I carried out a quantitative research. Its purpose was to observe the market trends regarding employee benefits. The research instrument used was a questionnaire, through which data was collected from participants in a standardized and systematic manner.

The respondents were employees of companies, beneficiaries of medical insurance or medical subscriptions. They fulfilled various roles within the company, from management positions to line staff roles. I aimed to have a diverse range of respondents to obtain more complex viewpoints. Additionally, disposable income can influence our decisions and opinions, which is why I attempted to cover industries in both higher paying markets such as IT, as well as factories where salaries are below the market average.

The questionnaire consisted of a selection of 22 questions, among which 20 were aimed for research purpose and 2 of them were to identify the respondents. The questions contained between 2 and 8 response options, as well as an open section where the interviewee could provide any additional information they desired. The questionnaire was emailed to the company representative in mid-2023. The company representative had the responsibility to inform the team of my intention to conduct the survey by distributing the questionnaire access link to all employees. They had three months to share their opinions, with all results being collected by the end of September. Following the analysis of the results, by the end of October, I was able to reach the initial findings and conclusions.

This survey involved 4000 employees from 50 companies across 7 industries – Automotive, IT, Manufacturing, Oil and Gas, Retail and Distribution, SSC BPO and Pharmaceuticals. Of the 4000 respondents, 51.9% were female and 48.1% were male, thus achieving gender balance.

### IV. RESULTS AND DISCUSSIONS

To begin with, I would like to present some differences and particularities of health insurance and medical subscriptions. Private health insurance represents 40% of the total medical services market because it appeared 10 years later than medical subscription benefits offered by a private clinic.

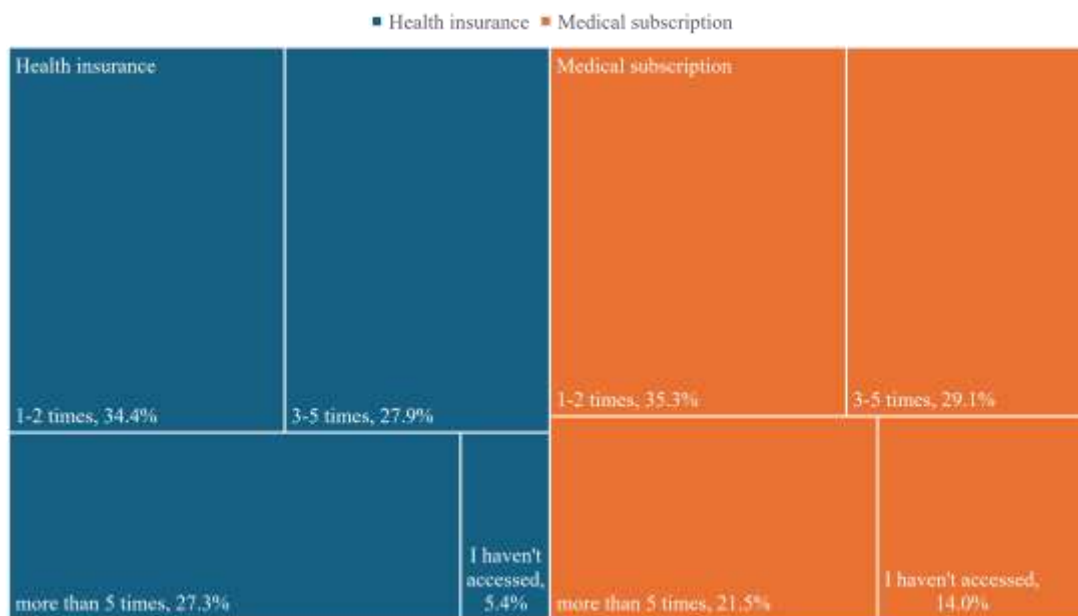
One primary difference is represented by the costs, with subscriptions having lower prices than insurance. If we analyze in terms of value for money, insurance justifies its higher costs through the quality of services offered and thus being the best medical benefit solution. It is important to mention that the health insurance market is regulated and supervised by the Financial Supervisory Authority and insurers are part of strong financial groups providing financial security, whereas those offering medical subscriptions - clinic owners, are private individuals or investment funds, hence riskier businesses.

Another major difference between the two types of benefits is the coverage area: with insurance, access can be made to any clinic, while with subscriptions, access is restricted to a certain network of clinics. Access only to a specific network is a disadvantage in terms of geographical positioning (there may also be transportation costs), service quality and the fact that access to medical services can be influenced, as there are own costs involved. Implicitly, if we talk about a smaller number of clinics, there will also be longer waiting times for appointments – 1-2 weeks from the date of request to the first availability.

In the case of health insurance, the covered services are clearly stated in the contract and the insured benefits from them at no cost, whereas with subscriptions, only a few basic services are covered. For other more complex services, from a broader coverage range, only price discounts are offered. Additionally, the insurance contract presents the services not covered to be as clear and transparent as possible and to avoid subsequent misunderstandings.

8 out of 10 employees access the medical benefits offered by the employer, whether we are talking about insurance or subscriptions to private clinics. The industry with the highest proportion among the participating companies in the study that offers medical benefits is IT.

**Figure 31: The frequency with which employees accessed medical services**



*Data source: created by the author based on the obtained information*

To conduct an analysis between the two types of benefits offered by the employer, I classified the responses based on those of health insurance beneficiaries and medical subscription beneficiaries. From Fig. 3, it can be observed that the most prevalent access frequency is 1-2 times per year and is higher among medical subscription beneficiaries. In the case of other response categories, a higher percentage is recorded among health insurance beneficiaries. In conclusion, health insurance beneficiaries access medical services more frequently, a fact confirmed by the relatively low percentage of those who do not access. As mentioned earlier, access is easier and without any additional cost for those who have health insurance, thus encouraging visits to the doctor whenever a health problem arises. Given that the employees can solve their medical issues promptly, they do not miss work and the company's productivity is not affected.

Most of the medical benefits provided meet the respondents' needs, with differences between types of plans (insurance or subscription). Only about 3% of respondents indicated that these benefits do not meet their medical needs.

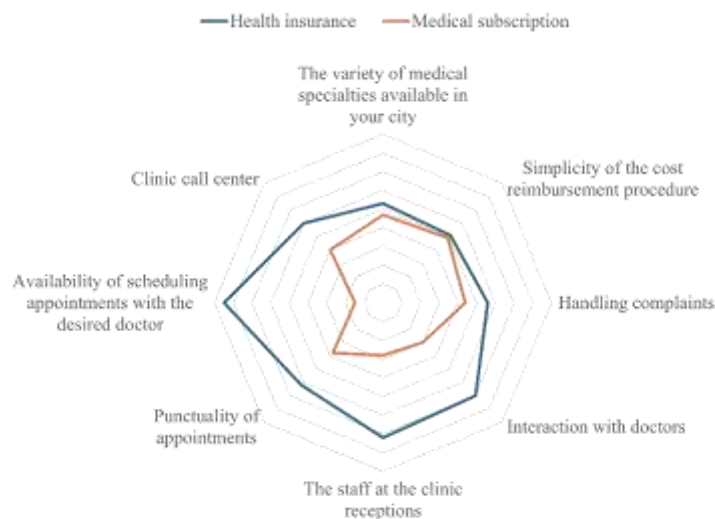
Based on the survey question regarding the utilization of medical services, it was discovered that both individuals with insurance and those with subscriptions have availed themselves of the provided benefit to a similar extent, accounting for approximately 77% of respondents. If we analyze from a gender perspective, it was found that women have a higher access rate than men. Therefore, they are more prone to getting sick but also have a greater openness to treating the illness, even at the first symptoms. Regarding males, we can say that they are more neglectful and do not go to the doctor unless the symptoms worsen. This confirms the indicator regarding life expectancy being higher among women, given that they are more concerned about their health.

It is important to mention that both types of medical benefits allow, for an additional fee, the inclusion of family members so that they can access medical services under the same conditions as the policyholder. I noticed that the majority of participants pay additional costs to include family members in their medical benefit plans. Although they pay this cost, a significant percentage mentioned that their family members do not use medical services, a common situation especially in the automotive industry. Another popular benefit among companies is when the employer covers the expenses for the employees' dependents and 90% of respondents stated that they would appreciate this financial effort.

Regarding the question "Do you consider that for your medical requirements, the benefit plan offered by the employer ensures timely access to the medical services you need?" 75% of insurance beneficiaries responded affirmatively, while 60% of those with subscriptions felt the same. Thus, it is observed that insurance offers faster access and more comprehensive services compared to subscriptions.

Furthermore, it is important to analyze the satisfaction level of the beneficiaries. I attempted to identify the main strengths of the two types of medical benefits and asked respondents to rate them on a scale from 1 to 10, with 1 representing a very low level of satisfaction and 10 representing a very high level of satisfaction. I processed the obtained data for both health insurance and medical subscription and presented the most important aspects using a spider chart. A point closer to the outer edge of the graph represents a higher level of service provided.

**Figure 42: The level of satisfaction in accessing medical services**



*Data source: created by the author based on the obtained information*

As revealed by the graph, insurance beneficiaries are more satisfied with all analyzed aspects. We can observe significant differences in satisfaction levels between those accessing healthcare through health insurance and those with medical subscriptions concerning aspects such as punctuality, scheduling with the desired doctors, interaction with doctors or receptionists. Thus, health insurance beneficiaries experience significantly higher service quality, partly due to the diversity of the clinic network. Although the number of clinics offering medical subscriptions may not be as extensive, they meet respondents' needs, confirmed by a similar satisfaction level regarding the variety of medical services available in their city. Regarding cost reimbursement, both types of benefits offer transparency and an easy process, with minor differences in satisfaction.

There were situations when respondents utilized medical services not included in their health plan, thus incurring additional costs. More individuals who encountered this situation were identified among those with medical subscriptions. Subscription beneficiaries incurred higher costs for medical services not covered in their plan, typically exceeding 100 EUR, whereas insurance beneficiaries generally incurred costs below 100 EUR. The next survey question allowed respondents to specify the types of medical services not covered. These included consultations, imaging tests, dental services, laboratory analyses, hospitalization, pregnancy monitoring, or rehabilitation.

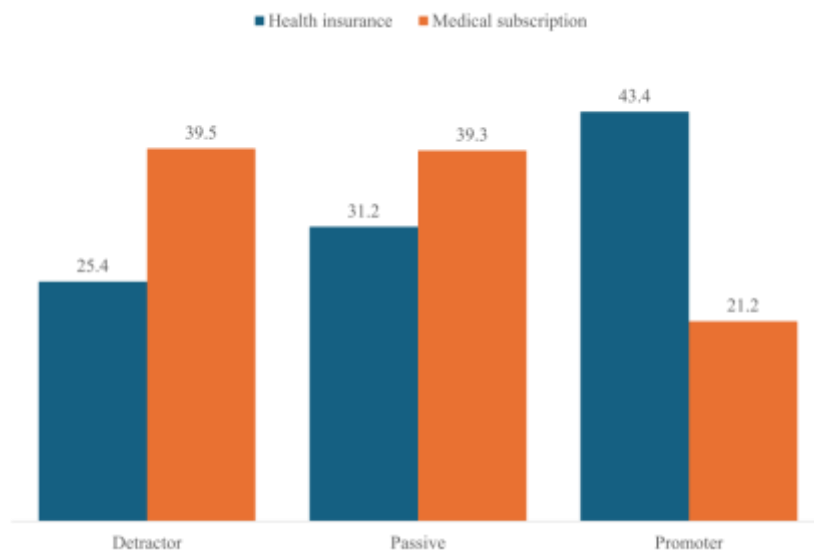
At the end of the questionnaire, respondents were asked to rate, on a scale from 0 to 10, the likelihood of recommending the medical service they receive to a colleague or friend. I grouped the obtained ratings into 3 categories: Detractor representing a score between 0 and 6, Passive a score of 7 or 8, and Promoter 9 or 10.

Before presenting the results, it is worth mentioning that more than half of the participants are satisfied with medical services, rating them above 6.

The percentage of those who would not promote health insurance services is lower than for medical subscriptions: 25.4% vs. 39.5%. The percentage of those who are neutral is 31.2% for health insurance and 39.3% for medical subscriptions.

Insurance provides more extensive and qualitative benefits compared to subscriptions, as respondents indicated that they offer faster access and more complex services, while subscriptions are limited in coverage. Furthermore, the percentage of those who accessed uncovered services is higher for subscriptions, suggesting they are less effective in providing comprehensive coverage. Therefore, the higher percentage of those who would recommend health insurance services compared to medical subscriptions is justified: 43.4% vs. 21.2%.

**Figure 5: Net Promoter Score feedback**



*Data source: created by the author based on the obtained information*

However, there are areas for improvement both in the case of health insurance and medical subscriptions. The advantage of insurance is that it allows for an intermediary: the insurance agent or broker. In the case of companies, it is recommended to appoint a broker to facilitate the insurance contract as they possess expertise and have access to market information and its trends, including practices within the same sector. Consequently, employees of the company can benefit from the best insurance product tailored to their needs.

## V. CONCLUSIONS

In emerging countries, insurance represents a branch of the economy with immense potential. The ability to capitalize on this opportunity for development and transform it into a catalyst for economic growth depends on the capacity and involvement of the states. In Romania, positive steps have been taken through the establishment, in 2013, of the Financial Supervisory Authority, as well as through strict and beneficial measures regarding the regulation of this market. Additionally, companies offering incentives such as health insurance or private pensions can reduce the contributions owed to the state. I consider that promoting these types of benefits has been successful, as they have become increasingly popular and well-known among people. They contribute to improving both health and financial literacy among the population.

The insurance market also faces challenges due to the emergence of adverse selection and moral hazard. Insurance companies can choose their clients based on the risk of the event occurring and their strategy to increase their income; likewise, policyholders, after concluding the contract, may exhibit behavior that increases the probability of the event occurring. An example of this could be a person who, at the time of contracting a health insurance, lies about his health condition or changes his lifestyle just to benefit from such insurance. Moral hazard results in increased costs of paid damages, while adverse selection leads to an increase in insurance premiums. One solution could be to clearly stipulate terms and conditions at the beginning of contracts and to adhere to them.

The fact that this market has a high level of concentration represents a vulnerability. There is a high degree of concentration in terms of insurance offerings, with a small number of companies holding a significant market share. The reduced incomes of the population are the cause of this concentration. Economic experts, such as

Fischer in 1973 and Campbell in 1980, have shown that there is a positive correlation between insurance and income. As national incomes rise, so does the demand for insurance and if individual incomes are higher, insurance becomes much more accessible to them. In my opinion, this behavior is not defining for the role of insurance, which is to protect you. When do we need protection and are more vulnerable? The answer is when we experience a decrease in income. Therefore, even though it represents an additional cost and effort, in that situation, we should consider contracting an insurance more than ever. Thus, the risks we expose ourselves to in a crisis situation will be diminished.

A different behavior in times of distress can be observed in Romania regarding medical services. If given the possibility to make a choice between a private subscription and health insurance, the vast majority choose subscriptions due to the lower price. This conclusion is also evident from the analysis of the questionnaire results, with a higher percentage of subscription beneficiaries. Unfortunately, when the need for a more complex medical service arises, subscription users incur additional costs to access it. Overall, they would have incurred lower costs if they had chosen insurance instead of a subscription. However, underestimating risks and preference for an initially lower cost led them to make this choice.

There is also the situation when they do not opt for any private medical service and only access the national health system. The problem is that when they visit doctors, people are willing to spend extra to provide incentives in the hope of receiving a better quality medical service. Balancing these costs with those of a competitive insurance plan, they will be much higher. Once again, the preference for lower initial costs has prevailed.

Following the analysis of the case study, I observed a utilization rate of approximately 80%, regardless of the medical benefit. Comparing the two types of benefits, insurance holders are much more satisfied than those with subscriptions. In cases where these are provided by the company for its employees, it is recommended to appoint a broker to intermediate policies and choose the best solutions for the real needs of the staff and increase satisfaction levels.

In the future, insurers will need to offer products adapted to new trends, as the way people purchase and use insurance will fundamentally change. An innovation in this field is the beginning of using Blockchain technology for storing and protecting customer data and even for issuing insurance contracts. For future research, I intend to conduct an analysis on the impact of this new technology on the insurance market.

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