Healthcare Insurance in Spain

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Medical expense reimbursement insurance was introduced into Spain a few years ago and is still therefore very young, but the growth which has been seen in this type of insurance has been spectacular, and it is expected that this trend will continue in the future. From an economic point of view, the profit which may be obtained from this business should be obtained by way of the management expenses.

Healthcare, in its widest sense, is a fundamental human right, and governments should do everything in their power, whether this be through public systems or through private medicine, so that every citizen may exercise this right.

It is clear that in the last few years Spain's national health system has made important advances, and amongst all of these advances perhaps the most important has been the provision of universal medicine.

In the private healthcare sector, since there is a greater level of competition regarding return on investments and expense containment without reducing quality of service, waiting lists and overcrowding are eliminated and therefore the patient is given more personal attention, and with some insurance products there is even true freedom of choice of doctor and hospital. This, together with poor organisation, leads to a situation where the public health service does not seem very appealing, and has few prospects for improvement. The public health service is experiencing long waiting lists for surgery and tests, the hospitals are overcrowded and emergency services are stretched to their limits. It is a fact however that medicine is expensive, and this is something that everybody must accept, both service users and service providers, because patients are demanding better healthcare quality and the technology used is becoming increasingly sophisticated, implying higher healthcare costs.

It would seem therefore that if a citizen wishes to remedy those deficiencies inherent in the public healthcare service, whether this be as an alternative - as is the case with Spanish civil servants - or as a complement, as would be the case for other citizens, this would have to be done through health insurance, whether for the reimbursement of healthcare expenses or for the direct provision of healthcare.

In Spain, the healthcare and sickness business line comprises a wide range of products, although these may basically be divided into two types: compensatory insurance (work sick leave, hospitalisation, surgical procedures, etc.) and private medical insurance.

For reasons of space this article will deal only with this last type, private medical insurance.

Traditionally the most widespread type of insurance in the Spanish market was healthcare services, whereas medical expense reimbursement was more prevalent in the rest of Europe and the United States.

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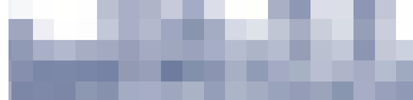
It is logical to think that these two types of insurance, healthcare provision and medical expense reimbursement, have their advantages and disadvantages. The most important of these, from the point of view of their use by the policyholder, is that in reimbursement insurance the patient has complete freedom in the choice of doctor or hospital. The policyholder must however initially pay the cost of the service and request

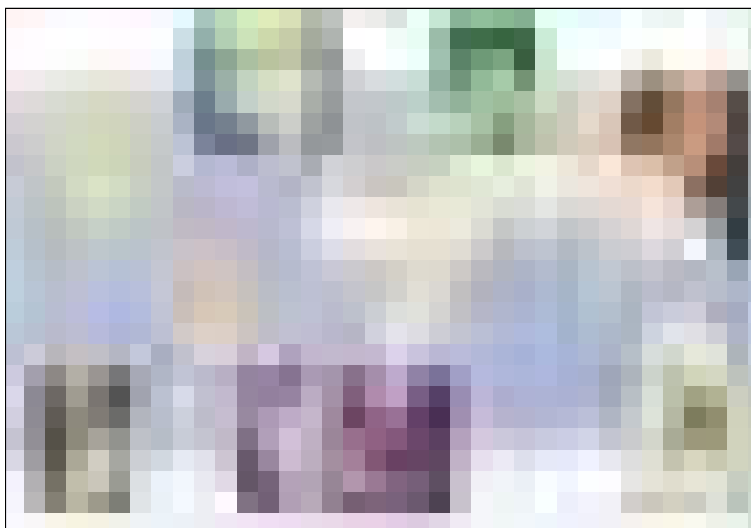


the corresponding invoice, in order to present this at a later date to the insurance company which will then reimburse a percentage of what has been paid, and which tends to run between 80% and 90%. This is not the case with healthcare provision insurance, as the cover which is given is limited to the provision of services and, therefore, the insured does not have to make out of pocket payments, except a certain amount to contribute to the cost of the services, and this tends to be done through computer tickets or cards. With this type of insurance, freedom of choice is limited to those doctors and hospitals with which the insurance company has an arrangement.

It is vital that mixed types of insurance - being very common and in many cases immediate - should be marketed with transparency and rigour. The insured should be made aware of not only the types of cover, limits, cover blackout periods and exclusions, but also how the insurance should be used. If this is not done then this leaves the door open for problems, which in some cases may be serious, this neither beneficial for the insured nor for the insurer.

It should be noted that the cover blackout periods which are applicable to policies are a defence mechanism used by the insurance company to ensure that a process of reverse risk selection does not take place. By this is meant the fact that a policy might be taken out in order to solve a specific problem, generally a surgical procedure, a birth or an expensive medical test. To prevent this, cover blackout periods are applied, these tend to be for periods of between 3 and 12 months, depending on the medical procedure involved. These cover blackout periods are eliminated however, except in the case of pregnancy and birth or in an emergency, when the insured is transferring from another insurance company where he/she had an insurance policy of similar characteristics.

The cover limits are necessary, above all in medical expense reimbursement policies, as in Spain there is no maximum scale of prices per medical procedure or action. Therefore in this type of policy, whose main attraction is freedom of choice, it is necessary to set a general limit per person and year and other sub-limits in order to be able to set a premium which is affordable for the person wishing to take out the policy. If this were not done then the premiums would have to be priced at an uncompetitive level.

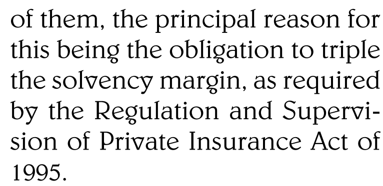


In any case, the limits which are applied are relatively generous and are established according to past experience, efforts are made to ensure that the costs of the most common procedures do not exceed these limits.

The profitability of the companies which market these products is low with regard to technical profits, in other words the difference between premiums collected (income) and benefits paid (expenses), due to the fact that premiums are relatively low because of the high level of competition which exists in the sector.

From an economic point of view, the profit which may be obtained from this business should be obtained by way of the management expenses. On the one hand by reducing new business acquisition or sales expenses as much as possible, and on the other, and what is fundamental in this line of business, by optimising administration management as much as possible by automating all aspects of the benefits system; it should be remembered that these products have a high frequency rate. These steps allow the company to provide professional and efficient service at a reasonable price.

With regard to the desirability or otherwise of coexisting with the social security service, I believe that this is in no way detrimental, the only negative aspect might be the double contribution which all of us, except the previously mentioned group of civil servants, are obliged to make. It is true however that the population is becoming increasingly conscious of the deficiencies of the public health service, which is why other alternatives are being sought, in this case private medical insurance; even though the individual has to pay twice. With regard to the survival of the present insurance companies, it must be said that we are in a period of company absorptions and concentrations, therefore the number of companies will decrease. This is even more true when it is considered that the requirements in order to create this type of company may not be met by many



of them, the principal reason for this being the obligation to triple the solvency margin, as required by the Regulation and Supervision of Private Insurance Act of 1995.

Faced by this situation the question may be asked, what is the future of private healthcare? Its future will surely depend on government initiatives tending to strengthen private healthcare such as joint initiatives, fiscal incentives and other coherent alternatives.

There are various options with regard to this, one alternative might be to give individuals the possibility to choose between public or private medicine, as it is the case at present for Spanish civil servants; another alternative might be for the state to guarantee a universal minimum standard of care, and to allow each citizen, if so desired, to increase these basic benefits. Fiscal incentives are not however an option, since the 15% tax write-off which until 1998 applied to healthcare expenses, and which seemed insufficient, has been eliminated in the present legislation.

When considering insurance products of the near future or even of the present, the greatest attention should be given to those products which are related to or which may to be directed at senior citizens.

It should be borne in mind that the average age of the Spanish population is increasing, in 1980 Spain had a population of 37 million inhabitants with 4.2 million over the age of 65; in the year 2000, 6.2 million people will be older than 65 out of a total population of 40.8 million, and in the year 2030 it is estimated that the Spanish population will decrease to 39 million inhabitants and the number of those older than 65 will increase to close to 8 million. Also, and this is a factor which should not be forgotten, as time goes on greater quality of life is expected in all its facets: health care, social benefits, day care centres, free time, etc.

As was mentioned earlier, these are all reasons why the insurance industry should make substantial and rapid progress in designing insurance products which respond to these demands which, without any doubt, will make themselves heard loudly in the immediate future. ■