Chapter: 8

Private Health Care Insurance – The Malaysian scenario

The essence of the insurance is the sharing of risks. It is a mechanism designed so that those fortunate enough to be healthy pay for those who are sick, with a clear understanding that should those well now fall sick later on, their cost will in turn be covered. So the insurance can be seen as the formalization of the mutual support system to be found in the villages through out the world, based on the notion that "I will help you in your current need because this place a clear obligation on you to give me help, should I need it".

Helping others builds up a capital of obligation, and in the village situation social control ensures that obligations are honored. Whereas in the modern insurance models, careful calculation of risk against premium insures that money is available to meet future obligation. (Brian Abel Smith, funding Heath for all – is insurance the answer, Who cares – Who pays? Selected articles from World Health Forum, World Health organization Geneva, and 1987)

Health care insurance can be voluntary or compulsory, in the former type individual chooses the insurance on his own depending upon the services he desires and pay the premium accordingly. In the latter type, the insurance is compulsory for all the individuals in a community, and each have to pay a similar premium or premium according to his income, and in turn receive a standard package of services. If he desire any more services that have not been offered by the package than he has to take an extra insurance or have to pay on top from his pocket.

The private Health care insurance is the insurance coverage offered by the different corporate insurance companies to the prospective policy buyer for coverage of their medical bills. In private sector the corporate insurance companies that work to maximize their profit offer these insurance policies.

The private health care insurance is actuarially based in that there is a clear link between the payment of a premium and the entitlement to the service. The private insurance is almost always risk rated, and entry into the scheme is selective and is based on the lower health risks. That means that it contains exclusion clause for the older and the patients suffering from chronic illness and requires high premium for the long-standing diseases. These services are almost always restricted to a defined level of entitlement. The limited entitlement may mean that unfortunate or underinsured individuals may exhaust their entitlement and then depends on other sources of funds.

The health insurance industry in Malaysia is heavily regulated by the central bank and only insurers are allowed to draft the health insurance schemes. The Malaysian insurance market is protected. In Malaysia the health insurance market is fragmented as well. Many of the prominent players (that offer the health care insurance in Malaysia) are life insurers that offer health product as supplement to their other life products. Only 20 % to 30 % of all life policies provide the critical illness cover.

In Malaysia, the two form of private medical insurance available are Hospital /Surgical cover and critical illness benefits. The hospital / surgical cover provide financial assistance to cover the medical and the surgical fees, while the critical illness benefit provides a lump sum benefits upon diagnosis of any of the critical illness specified.

Private health insurance in Malaysia, like anywhere else in the world is risk rated because it is designed to generate profits for the insurance companies. These companies offer insurance with many exclusion clause and high premium rates according to the age and the health status of the insured. In other words, it “skim the milk” by selling health insurance to the rich, the young and the healthy, excluding the old, the poor and the unhealthy.

Risk rated health insurance, being profit motivated is highly competitive. It is getting more powerful with globalization. As a compromise for equity catastrophic illness insurance is offered, which is very expensive and exclude the very people who stand to benefit from such insurance.

The portfolio of medical insurance underwritten by insurer is still relatively small. At the end of the 1998, medical riders accounted for less than 7.2 % (RM 446.4 million) of total life insurance industry premiums in force while the medical of the general insurers only comprised 3 % (RM 167.2 million) of total portfolio in term of gross direct premiums written in 1998. (Insurance Annual Report 1999, Bank Negara Malaysia)

Medical insurance market in Malaysia is identified as a sector with the potential to develop into a significant portfolio of the industry's business. But in order to harness the full market potential the insurer need to be more innovative and aggressive in promoting the business. They are required to come up with new and improved products that better satisfy the consumers need.

The main concern that has been expressed by many peoples about the private health care insurance is that it is risk-rated and contain exclusion clause for certain group of population, for e.g. old, very young, and chronic ill. That mean that these insurance companies are only interested in insuring the low risk health individuals, the technique earlier mentioned as 'skimming the milk'. Now if this continues to go on most of the low risk group will be covered by these private insurance groups, and the high risk patients will be left for government facilities to treat. That will definitely increase the cost of medical care in the government sector.

If we consider the option of the private individual insurance for the comprehensive health care financing in Malaysia, then how to address the problem of equity? Definitely the private health care insurance is done on the individual basis; every one has to pay his own premium that depends upon his general physical condition & disease state. So what about those hard core poor who can not afford to pay their premium? And what about unemployed?

Administratively the government can not be excluded altogether, and from time to time has to play its regulatory role. The government has to regulate the prices and tariffs and enforces standards and quality of service in order to safeguard the public interests. That mean only through continuous monitoring and regulation, the government can ensure that the social and national obligations are fulfilled, apart from ensuring reasonable profit for the private sector.

Private health care insurance encourages the over-use of health services, as some doctors are tempted to create demand with the consent of insured, when both parties knows that the cost will not be borne by the patient. So on the demand side the insurance tend to greatly increase the demand for these services, and that very likely push our health care system to beyond its limits.

EPF Proposal:

The Employee Provident Fund (EPF) was first established in 1st. Oct. 1951 under EPF ordinance 1951. Beside being the world's oldest provident fund, EPF is also one of the most successful fund of its kind, providing a compulsory saving scheme to ensure security and well being in the old age.

Each member's account in EPF is subdivided and maintained in three different accounts, these are;

- Account 1: for retirement purpose at age 55, contribution 60 %.
- Account 2: for housing and withdrawal at age 50, contribution 30 %
- Account 3: for health and medical cost, contribution 10 %

The Employee Provident Fund and the Life Insurance Association of Malaysia, recently announces a plan for the health insurance for the EPF contributors. This plan enables EPF contributor to authorize payments for the health insurance premium. The plan is still in the Treasury and waiting for decision.

Though the structure of the plan is not reveled but it is believed to be a risk-rated one that operate on for-profit basis. This insurance package will allow saving from the account III (consist of 10 % of the total amount in the account for health and medical cost) to be used by the EPF holders to sign up for the insurance policy and pay the required premium.

The account III consists of only 10 % of the total amount in the EPF account and this amount can be considered as a medical saving account. But considering the amount (only 10 %) it is not at all enough to sustain health care bill on own, neither will be sufficient enough to pay the premium for the health care insurance.