

## РЕГІОНАЛЬНА ЕКОНОМІКА

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## IMPROVEMENT OF THE HEALTH INSURANCE MECHANISM IN UKRAINE

## УДОСКОНАЛЕННЯ МЕХАНІЗМУ МЕДИЧНОГО СТРАХУВАННЯ В УКРАЇНІ

**Urgency of the research.** Health care system as a unique scope of services for the full functioning of the human body is of great importance in the conditions of formation of market infrastructure. Health insurance is an important part of the social infrastructure of every developed country and is regarded as an alternative model of health care.

**Target setting.** Ukrainian health care system is currently under reform. It is necessary to move to health insurance in order to provide effective reforms in health care system of Ukraine.

**Actual scientific researches and issues analysis.** The issue of health insurance is developed in the works of O. V. Baeva, O. H. Hupalo, O. M. Holyachenko, O. N. Litvinova, V. M. Mnikh, N. A. Molozina, Y. V. Pasichnik, A. L. Svechikina, O. H. Spodareva, V. M. Fedosov, S. I. Yuriy.

**Uninvestigated parts of general matters defining.** The questions on reasoning capabilities of formation and implementation of complex mechanisms of health insurance in Ukraine are not fully developed by the scholars.

**The research objective.** The aim of the article is to structure the directions of improvement of health insurance mechanism in modern market conditions.

**The statement of basic materials.** The current state of functioning of health insurance market in Ukraine is analyzed in the article. The share of voluntary health insurance in the insurance market Ukraine is defined. The main problems that hinder the effective development of health insurance in the country are listed. Promising directions of improvement of the mechanism of health insurance through an integrated approach to the use of forms of health insurance are suggested. The economic effect of the proposed directions is grounded.

**Conclusions.** The introduction of a comprehensive mechanism of health insurance in Ukraine, which will combine voluntary and mandatory health insurance results into possible health care reform that will lead to growth of strong and healthy nation and as a result - a strong and efficient economy of Ukraine.

**Keywords:** health insurance; mechanism of health insurance; mandatory health insurance; voluntary health insurance; insurance services; insurance market.

**Актуальність теми дослідження.** В умовах формування ринкової інфраструктури важливе значення має медичне обслуговування населення як своєрідна сфера послуг для повноцінного функціонування людського організму. Медичне страхування є важливою складовою соціальної інфраструктури кожної розвиненої країни і розглядається як альтернативна модель організації охорони здоров'я.

**Постановка проблеми.** Українська система охорони здоров'я на сьогодні знаходиться на стадії реформування. Для ефективного проведення реформ у сфері охорони здоров'я України необхідно переходити до страхової медицини.

**Аналіз останніх досліджень і публікацій.** Наукові праці таких вчених, як О. В. Баєва, О. Г. Гупало, О. М. Голяченко, О. Н. Литвинова, В. М. Мних, Н. А. Молозіна, Ю. В. Пасічник, А. Л. Свечкіна, О. Г. Сподарева, В. М. Федосов, С. І. Юрій розкривають питання медичного страхування.

**Виділення недосліджених частин загальної проблеми.** Науковцями ще недостатньо опрацьовані питання аргументації можливостей формування та реалізації комплексного механізму медичного страхування в Україні.

**Постановка завдання.** Стаття покликана структурувати напрями удосконалення механізму медичного страхування в сучасних ринкових умовах.

**Виклад основного матеріалу.** У статті проаналізовано сучасний стан функціонування ринку медичного страхування в Україні. Визначено частку добровільного медичного страхування на ринку страхових послуг України. Перераховано основні проблеми, що стримують ефективний розвиток медичного страхування в країні. Запропоновано перспективні напрями удосконалення механізму медичного страхування на основі комплексного підходу до використання форм медичного страхування. Обґрунтовано економічний ефект від реалізації запропонованих напрямів.

**Висновки.** Результатами запровадження комплексного механізму медичного страхування в Україні, яке передбачає об'єднання добровільного та обов'язкового медичного страхування, є можливе реформування галузі охорони здоров'я, призведе до зростання сильної та здорової нації і, як наслідок, – сильної та ефективної економіки України.

**Ключові слова:** медичне страхування; механізм медичного страхування; обов'язкове медичне страхування; добровільне медичне страхування; страхові послуги; страховий ринок.

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**Urgency of the research.** Health care system as a unique scope of services for the full functioning of the human body is of great importance in the conditions of formation of market infrastructure. Public expenditures on health do not meet the real needs of people. In terms of acute shortage of budget funds bigger share of outpatient and inpatient care becomes paid. Health insurance is an important part of the social infrastructure of every developed country and is regarded as an alternative model of health care. It enables rational use of funds intended to provide health care, while at the same time improves the quality of these services and the level of availability to the populations. In terms of increasing the percentage of morbidity of population of Ukraine and decreasing life expectancy of citizens the question of health protection of each and search for alternative directions of improvement of medical industry arises and grounds the urgency and the need of this study.

**Target setting.** World experience shows that the greatest success in addressing health strengthening of the population reached those countries which have introduced health insurance in health care system. Ukrainian health care system is currently under reform: voluntary health insurance is gradually gaining popularity and mandatory - despite numerous bills - still missing [1]. According to experts, Ukraine should move to health insurance for the effective implementation of reforms in the health sector. However, its introduction is not possible in the country until the health care system works on the Soviet model

**Actual scientific researches and issues analysis.** The problems of health insurance development are widely considered in the works of O. V. Baeva, O. H. Hupalo, O. M. Holyachenko, O. N. Litvinova, V. M. Mnikh, N. A. Molozina, Y. V. Pasichnik, A. L. Svechkina, O. H. Spodareva, V. M. Fedosov, S. I. Yuriy and others.

**Uninvestigated parts of general matter defining.** Despite the big amount of works on health insurance, the question of the prospects for improving the mechanism of health insurance is not fully developed.

**The research objective.** The aim of the article is to identify the main problems of mechanism of health insurance functioning and to develop the directions of its improvement.

**The statement of basic materials.** The level of socio-economic status of the state depends not only on GDP or investment in the economy, but also on the share of contributions to the medical field. Public health is the highest social and individual value, and therefore - the main capital of the country. The current state of health care system in Ukraine is quite complicated in both financial and organizational-structural aspects. It is characterized by low expenditure on health, uneven and inefficient distribution of resources in the system, high frequency of applications of citizens for medical services, lack of proper medical care at the primary level and adequate infrastructure. Medical and demographic situation in Ukraine is extremely disappointing. Mortality rate increased significantly and life expectancy reduced in recent years in Ukraine. Thus, in the EU mortality rate is 6.7 per 1 thousand and life expectancy - 74 years, while in our country, the corresponding figures are respectively 14.5 per 1 thousand and 69 years [2].

In Ukraine, only the form of voluntary health insurance is provided. Ukrainian market of medical insurance as the insurance market in general, is under formation currently. Nowadays more than 470 insurance companies operate on the domestic insurance market. Almost all of them declare their interest in voluntary health insurance (VHI) and more than 100 insurance companies offer VHI policy in Ukraine, but only about 10 companies, that, in fact, hold this market, are really interested in this kind of insurance [1].

The share of voluntary health insurance in the insurance market is steadily growing in Ukraine - in 2015 it amounted to 8.5% of gross insurance premiums for all types of insurance and 10.9% in gross insurance premiums on voluntary insurance (non-life). In 2000 the share of VHI was only 3% of the total insurance market [2]. Voluntary health insurance is provided according to the Law of Ukraine "On insurance" [3] as "health insurance (permanent health insurance)", "health insurance in case of illness" and "medical expenses insurance". Health insurance market develops quickly, especially permanent health insurance market that collected 137,9 million UAH in 2015 year, or 9.3% more than in 2014 and

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44 9 times more than in 2000. A price rise of medicines due to the change in exchange rates significantly affected the growth of insurance premiums. At the same time, we observe, as a positive moment, the increase in the number of contracts for all types of insurance, indicating the awareness of citizens and the corporate sector of the need to purchase health insurance policies. The population gradually begins to realize that health insurance is the only way for the health of Ukraine out from economic and social crisis. And the first step in this regard should be the direction of improvement of the current mechanism of health insurance development [4].

Analyzing health insurance in Ukraine, number of problems hampering its development can be identified. Among them: - inadequate training in this area; - lack of adequate remuneration of doctors in the form of salaries and bonuses; - avoidance of obligations to pay for the treatment of the insured, based on various grounds by the insurers; - the lack of legislation to regulate health insurance; different officials', insurers' and medicals' vision of the model, the health insurance should be based on; - lack of awareness of citizens about the possibilities of health insurance.

Health insurance has become an integral part of modern health care system, and so it should be reformed in line with the overall development strategy. Considering the need for systematic approach to reformation, and the inability of termination of health care system, we consider it rational to suggest direction of modernization of the existing mechanism of health insurance implemented under the current health care system [5]. As a part of this direction the realization of measures representing a complex combination of voluntary health insurance (VHI) and mandatory health insurance (MHI) is suggested.

Under complex realization of VHI and MHI we regard realization of the programs in insurance company or holding with the help of administrative and financial resources accumulated, which are designed to protect the property interests of policyholders and aim to increase economic efficiency of such activities (Fig. 1).

Assessing the current state of the health insurance market, we believe that the implementation, in the complex of programs of VHI and MHI provides a very significant economic impact. It can be explained by the fact that laws and bylaws permit unspecialized medical insurance organizations conduct VHI activity.

The list of common units of two types of health insurance is selected and grounded by the authors. It includes:

1. Implementation of measures on risk assessment. Risk assessment is the basis of any type of insurance. It is conducted on the basis of statistics and is used while calculating insurance rates.

2. Conclusion of contracts with medical institutions (MI). Providing health care program of state guarantees in the field of free medical services is conducted on the basis of contracts between the insurer and MI.

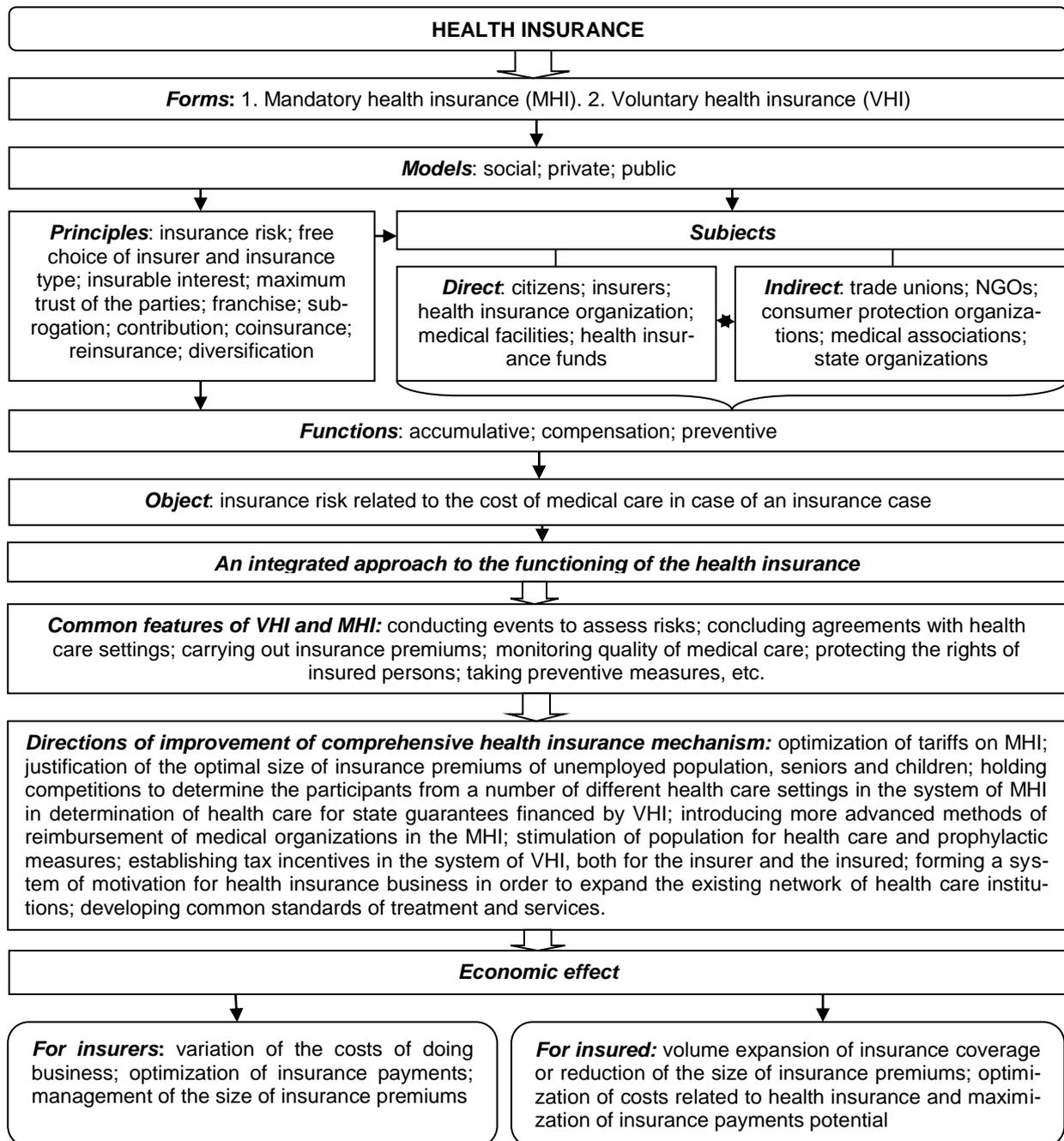
3. Organization of insurance payments. Insurance payments are the basis of the financing of operations of medical institutions, regardless of the "payment" of health services.

4. Organization of quality control of medical care. Control of health care quality determines the choice and the provision of medical services technology in accordance with standards accepted. Adherence to quality health care is a basic element of its provision; it directly affects the satisfaction of the citizens with the level of public health services. In VHI the quality of care is determined by the answer to the question – will the insurer sign medical insurance contract for the next period? In the MHI quality control of medical care poses a barrier to ineffective use of public funds.

5. Securing the rights of insured persons. Consumer of health services protection nowadays is being considered as part of health insurance obligations, assumed by the insurer.

6. Implementation of preventive measures. This activity directly implements preventive function, inherent in insurance. Part of insurance reserves should be used to reduce the risk of insurance case. Among these measures, financed by the insurer, are preventive examinations and clinical examination which have dominant value in identification of serious illnesses in the early stages.

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**Fig. 1. Conceptual approaches to the improvement of the mechanism of health insurance in Ukraine**

As we have noted, the presence of overlapping features and links in the health insurance system, affects the level of payments of the insurance company, which provides comprehensive insurance that allow getting economic benefit from an integrated product. In modern conditions there are several problems and features of the functioning of the mechanism of VHI and MHI on the health insurance market that complicate implementation of the merger process of two kinds of health insurance to im-

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prove the efficiency of medical services. We suggest main stages the implementation of which would remove impediments to the realization of mandatory and voluntary insurance as a single mechanism:

1. Optimization of tariffs for MHI based on actuarial calculations, taking into account various factors that may affect the probability of occurrence of insurance claims (population, a group of professional activities, etc.).

2. Justification of optimal value of insurance premiums for non-working population, seniors and children.

3. Introduction of more advanced methods of reimbursement of medical organizations in the mandatory health insurance.

4. Motivating people to health care and prophylaxis and implementation of control measures, related to the preventive measures.

5. Setting the tax incentives in the system of voluntary and mandatory insurance for insurers and for insured to conclude long-term contracts.

6. Expansion of the list and increase in funding directly to modernize the health care system.

7. Formation of the system of incentives for the subjects of health insurance to expand the existing network and to create new private health care institutions with a decent level of quality of medical services.

8. Development of regulations and uniform standards of treatment and medical services. Defining the scope of responsibility of medical institutions and medical personnel.

The steps or directions presented can be divided into internal, allowing improving the mechanism of insurance (justification of rates, fixed amount of insurance fees, admission in the system of private medical institutions, changing forms of payment services, creation of the incentives for health care and so on) and external. External factors affect the operation and relationship with the environment (budget, off-budget funds, medical institutions, etc.) [6].

In our view, addressing the challenges identified in the proposed stages should lead to:

1. One of the most important insurance functions – preventive – would automatically strengthen due to the activation of the prophylaxis.

2. The effect of the control function of health insurance would strengthen on the basis of strengthening of the control over the quality of medical care and effectiveness of the use of funds.

3. Redistribution of the flows of financial resources that ensure the functioning of health insurance would occur.

4. Shady financing schemes of VHI and MHI would be ousted from the market.

5. Extension of the conclusion of insurance contracts, in order to meet growing customer requirements to the level and quality of health care would occur.

We consider it necessary for the tax policy to be limited to the following set of measures under the stimulation of the health insurance:

1. As for employers, contracting VHI for their employees:

- cancellation of the criterion for the duration of the insurance contract and the transition to consideration of the duration of continuous program of VHI of the workers;

- cancellation of ceiling costs on VHI to assign them to expenses that reduce taxable income;

- transition to the transfer of payments under VMI to mandatory insurance of employers to the system of MHI;

- simultaneous recognition of actually paid money for contracts on VMI for expenses that reduce taxable profits, or provision of installment payment of income tax within the amount of tax calculated on deferred charges under such agreements - all within the tax period or providing installment to income tax within the amount of tax calculated on deferred charges under such agreements - all within the tax period.

2. As for individual policyholders - the cancellation of the threshold social tax deductions.

3. As for medical insurance organizations:

- opportunity to mix the reserves for liabilities obtained in different subjects into a single pool;

- the opportunity to create a reserve for preventive measures.

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Considering the combination and integrated use of various forms of medical insurance (MHI and VHI) in the activities of insurance companies, we can talk about some economic benefit, which will depend on various components of the provision of health services, both on the commercial and non-commercial basis.

The cost of doing business is the most important component of costs for the insurance companies that implement public services as part of the MHI. The level of the costs of doing business directly depends on the number of insured persons. Increasing their number, insurance companies have the opportunity to increase the cost of doing business, without changing the fixed costs [7].

One of the main criteria of assessment of the results of activities of insurance organizations providing services in the form of MHI is optimization of profits that is improvement of the final financial results. As for the insurance company, such parameter of financial results may be a so-called "technical result". It can be represented as the difference between the insurance premiums by type of insurance, insurance payments by type of insurance and the costs of doing business by type of insurance.

In providing services of insurance companies, the final financial results of their activities may be affected by all three components. However, the second component - the insurance premiums by type of insurance, is the most stable part because the insurer has too little room for maneuver in competitive conditions.

Talking about maximizing technical result, the insurance companies need to optimize two parameters: the amount of insurance payments by insurance types and sizes of the costs of doing business. It is the management of these two components that becomes the main task for the insurance companies to achieve their goals.

The profitability of insurance activity from the point of view of technical result is one of costly quality indexes of efficiency of insurance companies. Transferring the components of technical results in relative terms (by dividing by the amount of insurance premiums) we can say that the profitability of insurance activities from the point of view of technical result should match the difference between the level of insurance payments (calculated by the ratio of insurance payments and premiums by type of insurance) and costs of doing business in percentage terms.

Increased cost of doing business in modern conditions is also associated with increased costs of: precautionary and preventive measures (clinical examination, vaccination, etc.); financing costs for monitoring quality of the health services and protection of citizens in terms of health care and for insurer organizational work (work with medical institutions, assessment of risk, billing works) [8].

Thus, we can say that the level of the cost of doing business is the most flexible rate, which affects the financial performance of complex application of VHI and MHI, along with the level of insurance payments. One of the benefits of implementing a comprehensive mechanism is decrease in expenses per customer on insurance contracts on VHI and MHI, by combining costs, which were recommended by various insurance companies (separately for MHI and separately for VHI), and various medical institutions. These costs often overlap, suggesting the inefficient use of the fund with a separate application of voluntary and mandatory insurance. The technical result of the implementation of VHI will also be positive, as the overall costs will be much lower. As a conclusion we can say that the level of the cost of doing business is directly related to obtaining economic benefits from the implementation of a comprehensive mechanism.

The level of insurance payments also affects the profitability from the point of view of the technical result. We would like to dwell on the issue of funding for preventive measures. Prevention is always cheaper than cure, so preventive measures greatly reduce the likelihood and minimize the losses from the occurrence of insurance claims. If the insurance company has a policy of increasing funding for prevention measures, ultimately ongoing efforts will lead to a significant reduction in insurance premiums. Nowadays, this problem concerns not only individually insured, but to a greater extent, and corporate clients. And here, in this area there is a wide field for the activity of all companies with a view to mass introduction of practice of implementation of preventive measures, both for mandatory and voluntary health insurance.

**Conclusions.** Prospects of health insurance system in Ukraine are significant as there are a lot of potential insurance consumers (about 95% of domestic citizens have no health insurance contracts).

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Reforming the health care system in Ukraine with the subsequent transition to a comprehensive mechanism for health insurance would solve most of the problems of the state medical industry. Creation and adoption of legislation that would approve mandatory health insurance should be the first step in this direction. Administrative and logistical resources available in the state should be used for the comprehensive mechanism of health insurance to work effectively. Implementation of health insurance is impossible without a developed infrastructure – the optimal and rational government decisions are necessary in this case.

Also, the following conclusions about obtaining economic benefits from the implementation of a comprehensive mechanism for health insurance based on VHI and MHI can be made: 1. For the insurer: - varying levels of cost of doing business; - optimization of insurance payments; - management of the size of insurance premiums. 2. For the insured: - expansion of insurance coverage or reduction of the size of insurance premiums; - optimization of the ratio of health insurance costs and maximization of potential insurance payments. Implementation of VHI and MHI programs in complex will also develop a competitive market of medical services.

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