A Study on the Improvement of Private Health Insurance from a Actuarial Perspective

Private health insurance in Korea has played a significant role as complementary and supplementary health insurance that compensates for insufficient coverage by National Health Insurance and lowers policyholder's out-of-pocket payment. Moreover, the stable supply of the private health insurance will be more crucial to meet an increasing demand for medical services due to rapidly aging population.

But, although the private health insurance market has weak publicness, the private health insurance product has been emphasized public concern; standardized structure, limitation of using differentiated rates and experience rates, and policy guaranteed to be renewable and re-insurable. Furthermore, the sustainability of the private health insurance is seriously challenged since the rate of increase in medical costs, one of major determinants of renewal premiums, has been significantly higher than the inflation rate.

To ensure long-term sustainability of the private health insurance market in Korea, this report examines the existing problems of the private health insurance and suggests improvement measures of private health insurance product from an actuarial perspective as follows,

First, to counteract adverse selection in the stage of initial purchase, the private health insurance premium needs to be differentiated. Second, to reduce adverse selection and moral hazard in the stage of renewal, it should be reinforced the experience rating system which is connected with the amount of individual medical care utilization. Third, annual deductible should be introduced in order to alleviate moral hazard. Last, level premium should
be introduced in order to ease the burden of the private health insurance premium for the elderly.