

## *Private Health Care Insurance Shouldering Risk at the Individual Level*

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The use of private health care insurance is expanding rapidly in Japan. This trend is a reflection of developments linked to the major hikes in the patient out-of-pocket expense burden under the national health insurance system, which leads to a sense of higher health care costs. The Japanese people have reacted by moving to cover their risks through self-help efforts. In this report, I attempt to shed some light on the current status and the future horizons for private health care insurance in Japan, where the use of such plans has lagged behind the levels reached in other countries.

Private health care insurance is referred to as the “third sector” in Japan, a field in which for many years participation was permitted only by foreign life insurance companies and small- and medium-size domestic life insurers. In 2001 this business sector was opened up to large life insurance firms as one phase of deregulation, with a diverse range of insurance policies becoming available on the market as a result. As things stand today, the general rule is for fixed-amount benefits to be paid for hospitalization, surgery and other medical services, with two types of coverage available. The first is to take out health care insurance for such care as the main policy, and the second is attaching coverage of such services as riders to a main policy (for life insurance, etc.).

In terms of actual coverage, the most popular pattern is for hospitalization benefits to be paid from the fifth day in the hospital for up to 120 days for a single stay (grand total of 700 days), with the value of daily benefits running at about 5,000 yen. Surgery benefits, meanwhile, can be set in various different patterns, such as 10 times the daily amount paid for hospitalization (for an appendectomy, etc.), 20 times that value (thyroid gland surgery, etc.), 40 times (gastrectomy) and so forth. With these being fixed-amount benefits per each day of hospitalization and per individual surgery (regardless of the size of the medical cost burden), there is a strong sense of these benefits functioning as income guarantees. In spite of this, however, the Japanese people appear to view such policies as health care cost burden risk coverage.

Let's take a look at the current use of such insurance in Japan. According to the results of a study by the Ministry of Health, Labor and Welfare (MHLW), 57.9 percent of persons age 18 or above in Japan have taken out private health care insurance coverage, with the rate rising to over 70 percent for those in their 30s and 40s. The breakdown of the types of coverage taken out by these policyholders are hospitalization (94.3 percent of cases), outpatient care (60.5 percent) and cancer coverage (41.1 percent). A survey by the

Japan Institute of Life Insurance (JILI) was used to track the percentages of life insurance policies that also pay hospitalization benefits. The results of that study show that for the 18-69 age group, 73.0 percent belong to hospitalization insurance plans (including cancer coverage and other types). The rates of private health care insurance policies taken out in other major countries are reported as France 86.0 percent, Canada 65.0 percent, Germany 18.2 percent and Great Britain 10.0 percent, with Japan's coverage rate thus roughly equal to the level in Canada.

The JILI survey also inquired about the benefits (daily value) of hospitalization insurance policies, with the coverage for men found to average 10,100 yen and women 7,800 yen per day. In this regard, the average payment by persons having been hospitalized in the past was 247,000 yen, or 12,900 yen per day, with policy hospitalization benefit payments equivalent to 60 to 80 percent of that value. This indicates that policyholders are using health care insurance as coverage against the lion's share of hospitalization cost risks.

Let's estimate the scale of Japan's private health care insurance. Because no public disclosure is made of the statistics for nonlife insurance company sales, this estimate will target the sales of life insurance companies for which statistics are accessible. For fiscal 2002, the number of payments made under Japanese private health care insurance coverage came to approximately 4.04 million payments for hospitalization benefits, and 1.74 million payments for surgery. The number of annual hospitalizations, as estimated from the "Patient Survey" conducted by the MHLW, is around 14.3 million cases. This means that the number of benefits paid out under private health care insurance corresponds to some 30 percent of the total number of hospitalizations tracked in this survey.

Next, examining the total value of private health care insurance benefits (hospitalization and surgery), we find that the amount has been in an upward trend in recent years, reaching some 820 billion yen in FY2002. This corresponds to about 17 percent of the 4.8 trillion yen of national health care expenditures paid out of pocket. While this does not approach the level in France or Germany, where private health care insurance covers about 50 percent of the private sector burden, it compares favorably with the 19 percent in Britain. We may conclude, therefore, that private health care insurance has grown to the point of comprising a respectable market in Japan as well.

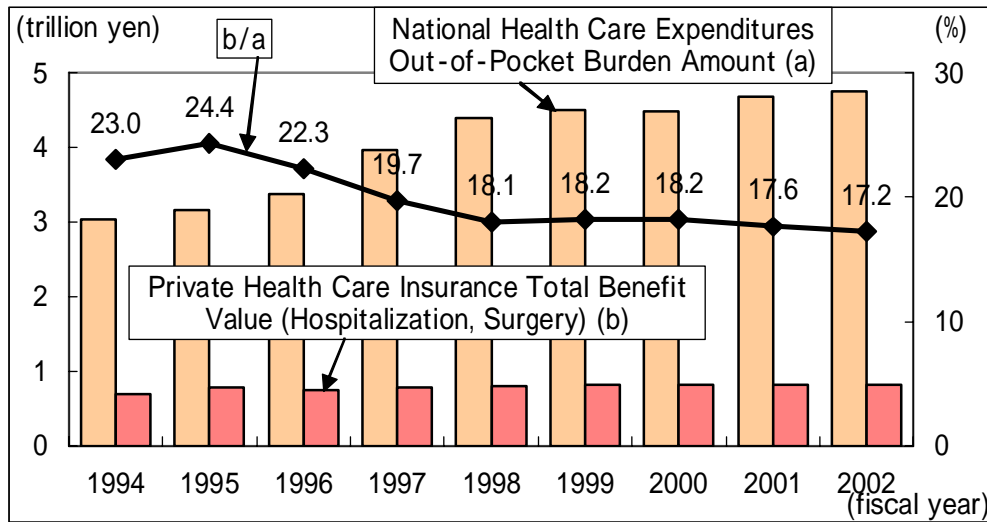
The market scales of private health care insurance in the countries of the Organization for Economic Cooperation and Development (OECD) reflect the differences in the actual health care services provided, benefit rates and other parameters applicable under the public health care insurance plans in the respective nations. Based on this thinking, in view of the fact that Japan's public health care insurance is available to all citizens, together with the broad range of benefit targets and coverage encompassing outpatient services, hospitalization and even prescription drugs, it has traditionally been believed that little room existed for private health insurance to penetrate the market. Recently, however, the hikes in patient out-of-pocket payment rates, increases in bed charges not covered under the national insurance plan and other developments have led to a swift rise in patient burdens. Under these conditions, the proliferation of private health care insurance can be viewed as a reflection of the growing sentiment among the general public that the cost of health care is definitely on the rise.

With the graying of Japanese society, good health and reliable medical care have become the greatest concerns for the Japanese people. We are witnessing a virtual

nonstop rise in the need for highly advanced and comfortable health care services, and it seems impossible to meet all of these needs through public health care insurance plans. Skillful use of private health care insurance, on the other hand, will not only reduce the economic risks of patients, but also offer rich potential for expanding the range of high-quality service options. Looking to the future, in the event of a lifting of the ban on dual use of health insurance and private treatment, the likely result would be an acceleration in the spread of state-of-the-art health care technology with a surge of private treatment that is suppressed by the ban at present.

At the same time, however, it will be critical to devote proper considerations for those in lower income brackets, the elderly and other high-risk user groups. In this area, the experiences of countries that have dealt with such challenges by setting ceilings on private plan premiums and taking other steps should provide useful references. It would be foolish, furthermore, to opt for easygoing and irresponsible use of private insurance to take over the burden of public coverage. Under the experiences compiled in the OECD countries to date, it has proven impossible to shrink the scale of public health care insurance by making increases in private insurance plans. This is because the ultimate results of supplying basic medical services through public health care insurance, while using private health care insurance to satisfy today's increasingly advanced and diversified patient needs, will be an increase in national health care expenditures.

**Chart Private Health Care Insurance Benefit (Comparisons with National Health Care Expenditures Out-of-Pocket Burden)**



Source: Japan Institute of Life Insurance "Life Insurance Fact Book"