



**A STUDY ON THE DETERMINANTS OF HEALTH INSURANCE DEMAND**

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## **CHAPTER 1: INTRODUCTION**

### **1.0 Overview of Health Insurance**

Health insurance has a greater impact on people everyday's lives compared to other types of insurance. Malaysia offers a widespread medical coverage that is divided into two forms of healthcare system which are the public and the private system. The public system may be divided into hospital and clinic, which are placed wherever their services are considered relevant. The public health care system are also in charge of prevention systems that covers diseases, preventive and environmental health, dental needs, food and water quality and enforcement, all at a minimal fee. (The Star, February 2010). It is to ensure that there is equitable access of treatment to the poor and elderly, whereby each patient is only charged a nominal fee of RM1 for outpatients clinic visits, RM5 for specialist clinic visits, and maximum RM50 for third-class ward hospitalization costs. (Ministry of Health, 2010)

The second choice is the private system for those who suffer from illnesses and accidents medical treatments, either at the primary care level, secondary or tertiary care level. In the private system, the fee for service and payment comes from their own pocket or covered by health insurance.

Health insurance is a protection mechanism against loss by sickness or other risks that are health related. The loss may be loss in wages caused by sickness, expenses for doctors' bills, hospital bills, and so forth. Health insurance can be bought as a single policy or as a form of riders attached to some basic life insurance policy. For example, every Singaporean has a Medisave account with the Central Provident Fund (CPF). On top of that, Singaporeans are also entitled to Medishield, which are low cost medical

## **1.1 Background of Study**

Health insurance is a type of protection by insurance companies to cover offered medical spending incurred by the insured. The modes of coverage may be in the form of reimbursement to the insured or direct payments to the health care provider.

This issue arose when Council of Medical Malaysian Association (MMA) noticed the rise in cost of health expenditure and they began to set up a Committee on Health Insurance in 1983, in order to protect individual and family against incurring costly health expenditure in the case of any illness. MMA has recognized that socio-economic changes such as safe water, smaller families, adequate food housing and change in lifestyle have played a prominent role in decreasing morbidity and mortality and increase life expectancy (Health Assurance and Health Insurance for All Malaysian, 1987).

During the 1980s and 1990s, with the implementation of the fourth, fifth and sixth Malaysian Plans (MP), Malaysia expanded health care system to ensure Malaysian citizens were made aware of healthy practices and methods of illness prevention. During the seventh MP (1996-2000), emphasis remained on public health awareness and the objective of the program was to achieve "health for all Malaysian by the year 2000".

Sales of Medical and Health Insurance (MHI) policies only surged in the mid 1990s after the introduction of personal income tax relief for the purchase of MHI policies in 1996 and following policy relaxation to allow life insurers to sell standalone MHI policies in 1997. In the past five years, annual premium income generated from yearly renewable MHI policies has increased by an average annual rate of 28% to RM1.5 billion in 2005.