Insurance. Principe of Insurance; Health Insurance

Healthcare policy, Management and Economics, Public Health, Lecture 8

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Health Insurance

- We cannot insure ourselves against the risk of getting an illness
- We can insure ourselves against financial implications of illnesses

Insurance characteristics

- Pooling of individual financial risks across all members of the pool
- Risk pooling refers to the collection and management of financial contributions
- Participation in risk pools is either voluntary, or compulsory

Two types of Uncertainty

- Consumers do not know if they ever need healthcare
- Consumers do not know the full financial implication of illness

Three types of risk preferences Certainty vs. uncertainty

- Risk Neutral
- Risk averse
- Risk seeking

Gain from Insurance

- Probability of getting sick
- Expected loss income
- Insurance premium -Load factor plus loading

Moral hazard

- Moral hazard refers to any tendency for the presence of insurance to increase the probability of loss or its amount

Adverse selection

- Adverse selection arises from asymmetric information about the risks faced by the individuals
- The problem with actuarially fair insurance is that of signaling and identifying "true risks"
- The more asymmetric the information is between buyers and sellers of insurance, the more severe the problem of adverse selection becomes

Thank you

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