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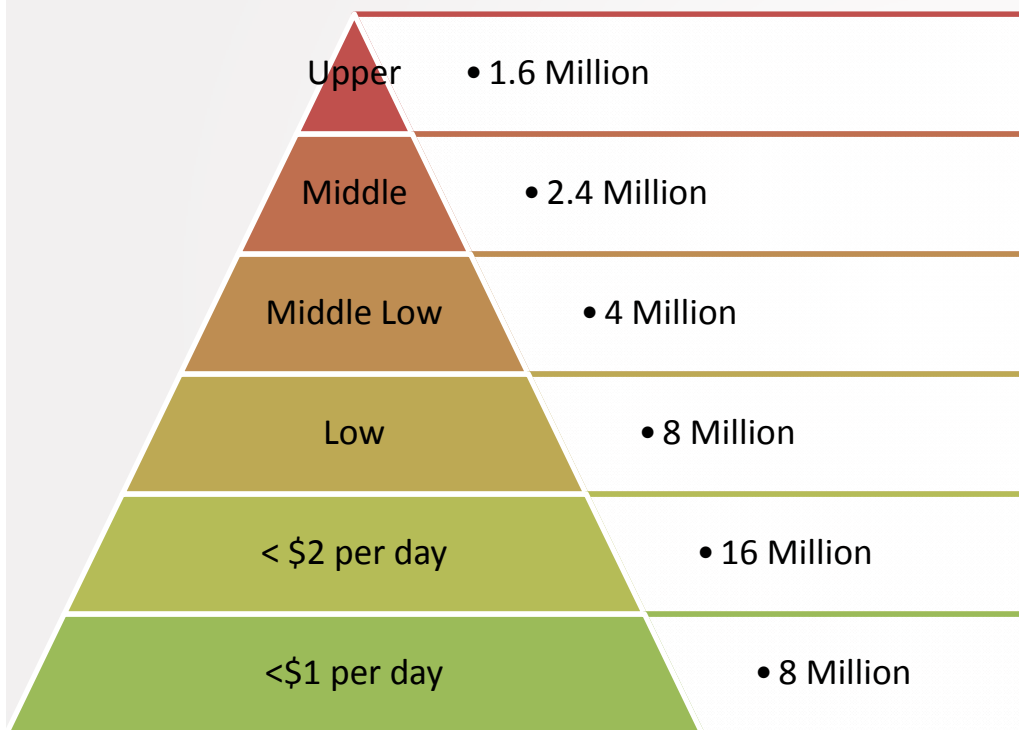
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CHALLENGES OF PROVIDING LOW COST HEALTH INSURANCE TO THE FORMAL SECTOR

Health Insurance Workshop

24th May 2012

KENYA'S POTENTIAL INSURANCE MARKET



- Out of a total population of 40m, there are 21m adults of whom 12m are unemployed.
- 7m Kenyans are employed in the informal sector
- Close to 2m Kenyans are employed in the formal sector
- A big population of the formal sector can be categorized as low-income earners

(Source: Cenfri, Kenya Microinsurance Landscape, 2010)



HEALTH INSURANCE IN KENYA



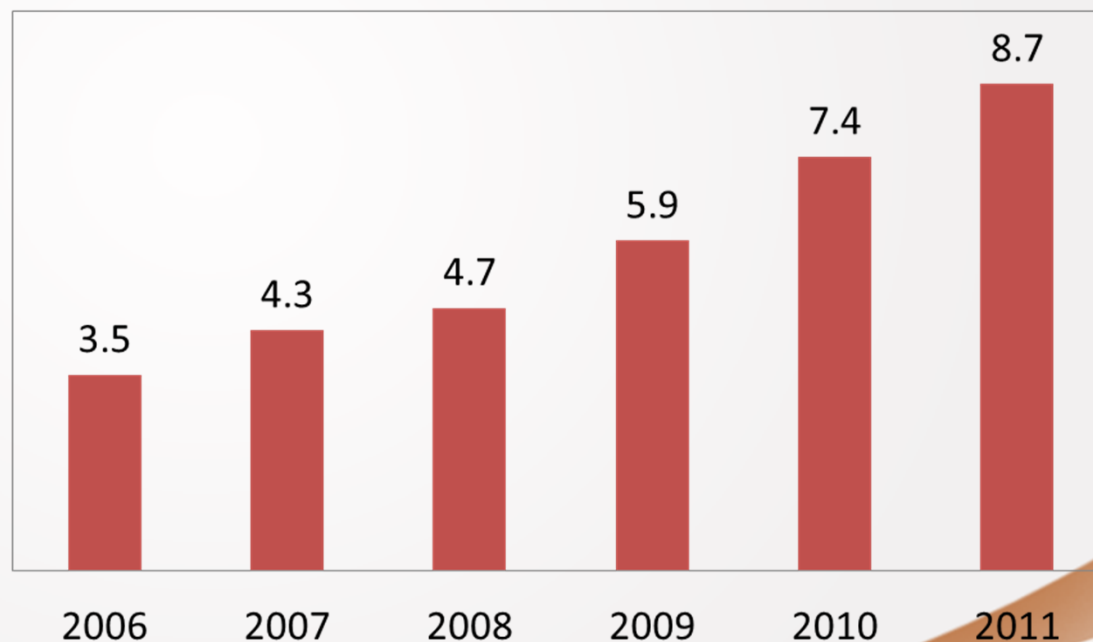
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Medical Insurance Industry Premiums

- There are 14 medical insurance providers in the country
- Premiums have almost tripled over the last 6 years
- Growth is mainly due to increase in premium rates
- Insurance penetration remains low at 2.05% of GDP for all non-life insurances

Medical Insurance Industry Gross Premiums (Billions)



THE ROLE OF NHIF

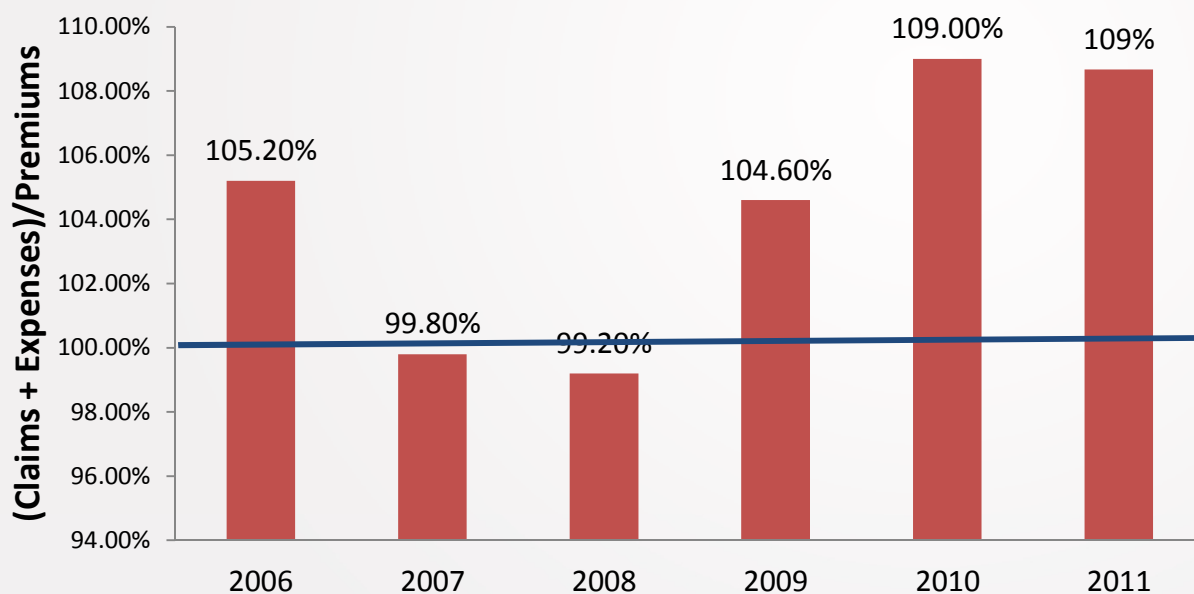
- About 2 million of Kenya's 40 million residents have public health insurance under the NHIF, which relies on contributions from high-earning Kenyans to cover hospital benefits for members and their dependents
- NHIF provides access to government and low cost hospitals across the country
- There is a gap in the provision of quality low cost health insurance which the private sector players are expected to fill
- It is estimated that just 2% of the population can afford private health insurance, which some say is needed to receive care at certain hospitals and health facilities.
- Currently, NHIF has a membership of 2.3 million principal members with 6.6 million dependents drawn from the formal and informal sectors.
- The Fund collects its deductions through a network of over 44,000 employers, utilizing modern technologies as EFT and M-health solutions.



THE CHALLENGES

CHALLENGES IN THE MEDICAL INSURANCE INDUSTRY

Claims & Expenses as a percentage of premiums



- ✓ Claims growing faster than premium - Last year losses were over half a billion
- ✓ Marginal profitability in years 2007 & 2008 - Insufficient Return on Capital
- ✓ Claims of 80% of premiums means there is insufficient amount to pay sales commissions (15%) and administer the product

RISING COST OF CLAIMS

- Claims are growing at a higher rate than premiums
- Claims as a percentage of premiums remain high despite increase in premium rates
- The number of people taking up insurance has not increased significantly – thus high claims costs are not due to more people insured
- Medical Inflation over the last 5 years was below 10% excluding year 2008 when it was 15.7% (*Kenya National Bureau of Statistics*)
- This was the only year when insurance companies were able to cover costs comfortably (*Industry Profit of KES 33m*)
- Thus the observed large claims costs (& losses) are not mainly determined by medical inflation



Challenges of reaching the low income formal sector

- Cost of health insurance remains a challenge to low income earners
- Distribution of health insurance to the target market remains a challenge due appropriate channels & insurance companies trying to maintain cost
- Access to low cost hospitals
- Resistance by the formal sector
- Lack of innovation on the side of the insurance companies
- Low awareness on the benefits of risk pooling/insurance



Fraud as a major challenge

- The industry attributes increasing claims costs to Fraud - as the rise in claims is much higher than the rise in healthcare costs
- The level and type of fraud varies: from providing unnecessary treatment to collaborating with client to exhaust cover limits
- Fraudulent behavior increases as premiums increase - Members increase unnecessary usage of medical services. Further increasing costs & premium- vicious cycle of high premiums & claims continues until premium is unaffordable thus reducing penetration of health insurance
- The impact of fraud is unpredictable thus increasing premiums to cater for it may be futile. Unfortunately there are no reporting of fraudulent cases but the industry is working towards consolidating and sharing fraudulent cases

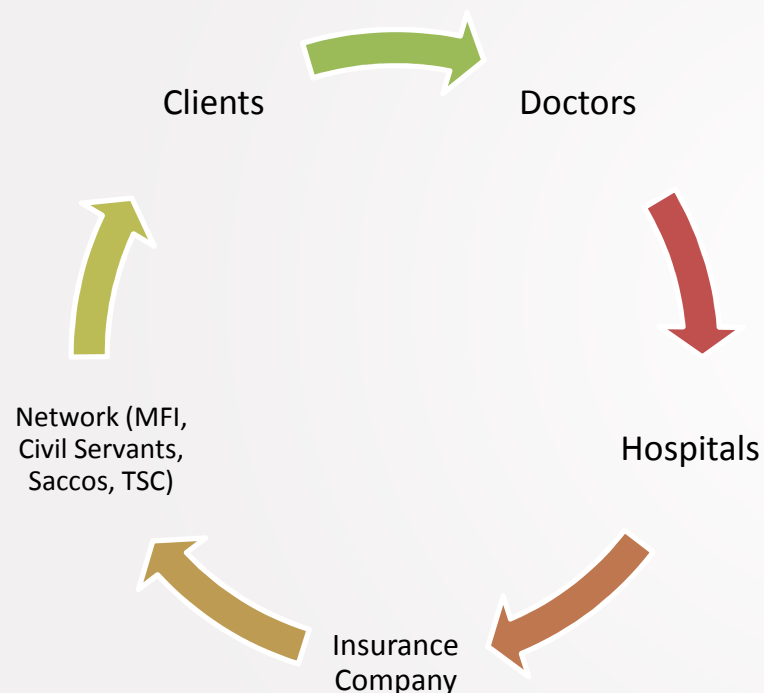
The Role of Health Professionals

- Doctors can assist in containing medical claims cost.
- This would translate to lower premiums and therefore increased uptake of insurance. High premiums is a large obstacle for insurance penetration.
- As a result there would be an increase in demand for private healthcare as more people use insurance to pay for treatment, therefore more patients for doctors and reduction of bad debts in hospitals
- Also less dependency on family to pay hospital bills may increase disposable income which can be used to buy insurance
- The success of Health Management organizations proves that doctors and other medical service providers play a key role in sustainability of medical insurance

Role of Health Professionals Cont'd

- There are various ways doctors can assist
 - Proper diagnosis first time round – Avoid repeat hospitalization
 - Do tests as necessary, starting from simplest and escalating only as necessary. Keep in mind cost of test versus benefit in diagnosis.
 - Invoice for treatment provided (integrity)
 - Charge the same for insured patients and non-insured patients
 - Discharge patient on-time/ Do not admit unless required
 - Avoid collaboration with clients by offering fake receipts
 - Whistle blow – report fraudulent behavior through KMA & other professional bodies.

The role of the consumer chain



- The value chain plays a major role in health microinsurance:
 - Distribution by the networks
 - Consumer education by the networks
 - Provision of good health care by doctors
 - Cost monitoring by hospitals
- In contrast, the value chain can pose challenges to the provision of health microinsurance:
 - Resistance by the networks to cooperate with insurance companies
 - Inflation of costs by doctors
 - Long unnecessary stays at the hospitals
 - Increasing of medical costs by the medical fraternity without consultations with medical insurance providers

Summary

- Medical Insurance industry has more almost tripled over the last 6 years
- The losses have also doubled making the business unsustainable in its current state
- Fraud is seen as the biggest impediment as it is unpredictable
- The solution to most of the challenges outlined lie in the innovation of the insurance companies and adoption of ICT solutions to drive business
- The low-income market is not able to access healthcare due to high costs of most medical insurance schemes

Looking forward

- As seen above increasing premiums will not solve the crisis in medical insurance. Innovation & partnership are required.
- There is need for a change of strategy where doctors and other medical providers assist in reducing claims cost.
 - For example, can hospitals and insurance companies share the risk and profits involved in providing health insurance so as to ensure that premiums are affordable and the business is sustainable (profitable)
- The medical fraternity can partner with the health insurance companies to create private health facilities where clients get treatment at pre-agreed/ reasonable prices
 - This partnership would eliminate instances of fraud, reduce claims cost and thus premiums

Market Example

AAR Kenya: Approaches to PHI for Low Income Employees

Dr. Edward Rukwaro, GM AAR Healthcare

Approaches to Low Income Market

- AAR's approach to low cost insurance for low income earners in the formal sector.
- Successes so far
- Challenges and solutions
- Way forward & future Options

Thank You

Discussions