Challenges & strategies to extend health insurance to the poor

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Health insurance – a special challenge?

- Health insurance has many of the difficulties insurance for other heads of damage has
- But health insurance has *additional* ones

Which one can you think of?

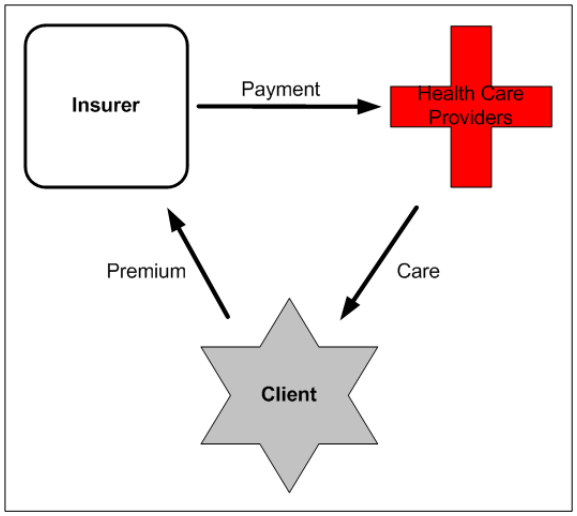
Challenges in health insurance - overview

- Additional player: providers
- Adverse selection
- Moral hazard
- Varying costs: Non-predefined claim height
- Expectation regarding benefit package
- Multiple events – frequent interactions
- (covariate risks)

Challenge 1: Additional player

- Health care providers come as additional player into the insurance arrangement
  - Which provider is eligible?
  - What rate to pay?
  - How does the provider know about insurance status?
  - How to control the provider? -> information asymmetry (especially for non-experts)

Option 1: Cashless through contract



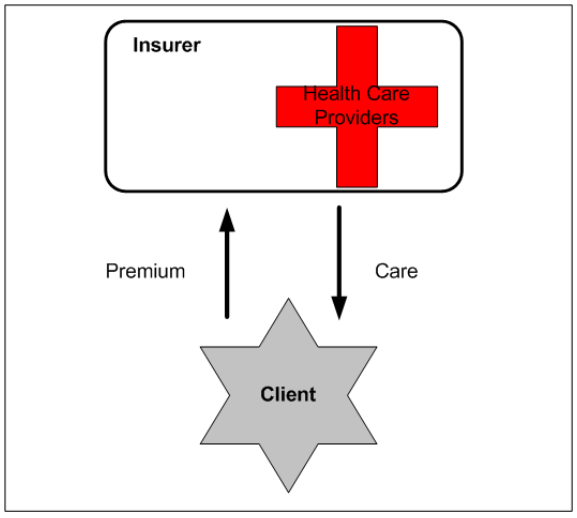
Advantages

- No financial burden on insured
- Rates can be defined

Disadvantages

- Only limited number of pre-defined providers
- Authorization can take time
- ID system for insured needs to be in place
- Example: Yeshasvini Trust

Option 2: In-house provision



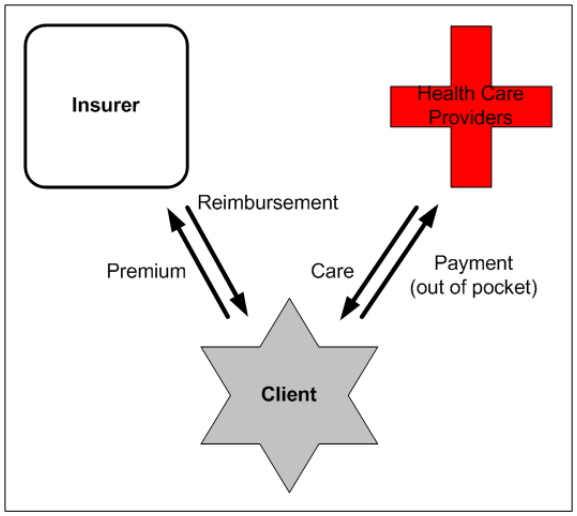
Advantages

- No financial burden on insured
- Rates can be defined

Disadvantages

- Only limited number of pre-defined providers
- Conflict of interest might arise
- Economies of scale might not be realized
- Example: ServiPerú

Option 3: Reimbursement



Advantages

- Can give choice to client

Disadvantages

- Varying prices
- Reimbursement gap can pose high burden on client
- Risk of lacking documents on client
- Risk of fraud/collusion
- Example: BAIF, Uplift

Challenge 2: Adverse selection

- Adverse selection particularly relevant in health insurance:
  - Health status of person difficult to examine (hidden information)
  - Examining health status at time of joining expensive

Consequence: unviable risk pool

Options for tackling adverse selection

- Waiting period
- Risk pricing (for certain risk groups)
- Spreading the risk through group affiliation: family or larger group

  !! Group contract ≠ risk spread !!

Challenge 3: Moral hazard, fraud

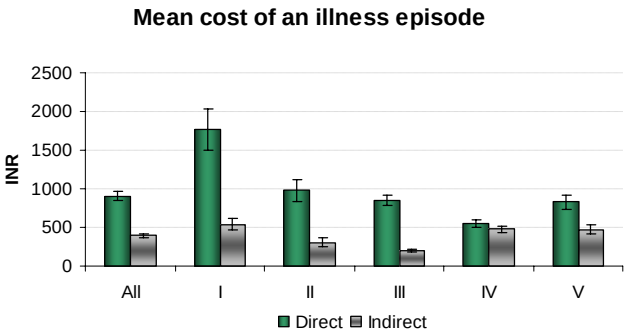
- Illness can be difficult to verify; clients might start using more just because they are insured (client driven moral hazard)
- Providers might initiate unnecessary treatments (provider driven moral hazard)
- Collusion of client & provider possible

Options for tackling MH & fraud

- Detailed documentation -> expensive
- Deductibles/co-payments
- No/low claim bonus
- Local responsibility

Challenge 4: Varying costs

- Varying costs depending on illness, severity and features of the individual
- Varying costs depending on location
- Varying cost depending on provider



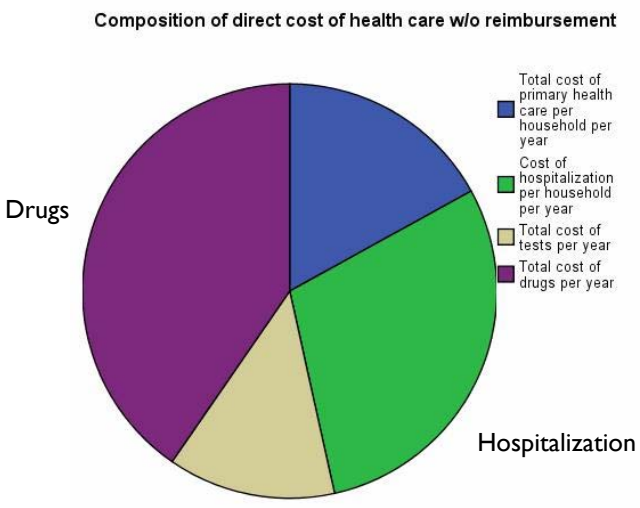
Source: Dror, van Putten, Koren (unpublished)

Options to handle cost-variation

- Fixed pricing with providers
- Fixed reimbursements for clients
- Localized pricing

Challenge 5: Expected benefit package

- Different people, different risks
- Different risks, different expectations on benefit package
- Pooling advantage: high-cost, low-frequency; however, low-cost, high-frequency add up to significant costs
- Little trust in long exclusion list



Source: ECCP, 2005

Option: Localized packages

Benefit packages need to be

- Broader in terms of benefits covered
- Context specific (e.g. include transportation where needed, …)
- Meaningful in coverage

Challenge 6: frequent interactions

- Illness strikes regularly
- Depending on benefits provided, frequent interaction is needed
- Product servicing might lead to high transaction costs

Options for reducing transaction costs

- Involve health care provider (risky in terms of potential for fraud)
- Localize administration; involve clients

A strategy for a way forward (i)

Build capacity in local community based insurance schemes and ensure their stability through provision of reinsurance

- Group enrolment
  - Less adverse selection
- Localized benefit package
  - Varying costs
  - Client expectations

A strategy for a way forward (ii)

- Localized administration
  - Lower transaction costs
- Local stake in profits & losses
  - Less moral hazard & fraud; use of local information
- Link to providers of reinsurance(-like) services
  - Financial stability

Questions?

Thank you for your kind attention.

What can MIA offer?

- Training
  - Ground structure (villagers)
  - Promoters
  - Environment (Sarpanch, …)
- Research
  - Impact assessment
  - Risk profiling
- Consultancy
  - Concept development
  - Implementation assistance