

# **Private Health Insurance in Developing Countries**

**“Financial and Management Practice in a Voluntary Medical Insurance Company in the Developed World”**

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## Context

- ❑ **Can the essential elements of a voluntary health financing scheme be created in a middle income country?**
- ❑ **What constitutes financial and management practice in a voluntary medical insurance company in the developed world?**

## The Task

- ❑ **Examine VHI in UK/Ireland/Australia/New Zealand with reference to South Africa and Israel**
- ❑ **Concentrate on “gap” rather than “principal”**  
*“a gap in financial and/or entitlement terms, between that which a government funded system purports or promises to deliver, and that which individuals either have to finance themselves (explicitly) or perceive they will not be covered for (capacity, choice, timeliness, quality)”.*
- ❑ **Provide insight into “where to from here?”**

### Gap versus Principal: Does it matter?

- ❑ Generic competencies the same (with the exception of supply chain management)
- ❑ Capacity is likely to be different:
  - Scope of coverage
  - Defined versus ‘medically necessary’ benefits package
  - Broader contracting experience
  - IS more epidemiologically biased
- ❑ Vertical versus horizontal integration?

## Management Practice

- ❑ **Product:** *ability to define and develop products (risk management levers)*
- ❑ **Pricing:** *ability to appropriately price, from an historical event and a prospective epidemiological perspective.*
- ❑ **Market & Distribute:** *ability to innovate, position and distribute*
- ❑ **Billing & Claims Processing:** *ability to accurately maintain a register of members, bill them in a timely and accurate manner, receive, register, adjudicate and pay claims (often high volume and low value)*
- ❑ **Customer service:** *ability to conduct proactive and reactive interactions with customers, principally by phone or electronic media*
- ❑ **Provider Relations:** *ability to conduct proactive and reactive interaction with provider organizations and individual clinicians/physicians. Traditionally passive mechanisms, but increasing requirement for contracting skills and process.*

## Management Practice (cont.)

- ❑ **Quality Assurance:** *ability to manage, evaluate, evolve and quality assure the above complex and interactive processes*
- ❑ **Governance:** *ability to govern and manage the strategic position of the organization to meet regulatory requirements, solvency standards, and the evolving political, public policy and economic context. Ability to manage conflict between serving customers (members) and shareholders( who are often the members).*
- ❑ **In short, a reasonably generic set of competencies.....**

## Management Practice (cont.)

.....challenged by the business model and environment:

- ❑ *Relative freedom to define benefits and indemnify consumers – as a consequence an emphasis on episodic versus chronic, multi-morbidity conditions (limitations to offer)*
- ❑ *Purchasers tend to be risk averse and demand driven*
- ❑ *Relatively passive constraints on demand with price, followed by choice of benefits being the major tools*
- ❑ *Passive to poor constraints on supply. Price takers rather than makers*
- ❑ *Subject to regulatory/ behavioral nuances of both government and the principle funder/provider(s)*

.....a business model which relies on substantial risk management capacity and competency:

# Risk and Financial Management Practice

- i. **Income and Expenditure:**
  - *Growth as a major driver for sustainability*
  - *Above average marketing skills, capacity to acquire, integrate, replenish*
  - *Continuous quality improvement/ administrative efficiency*
  
- i. **Matched by Assets, which**
  - *Are predominantly liquid, low risk, with capacity to acquire*
  - *Anticipate higher growth in liabilities as growth occurs, membership ages, new technologies drive demand*
  - *Anticipate relentless inflationary pressure versus constraints on timing, frequency and degree of price response*
  - *Readily translate into demonstrable solvency*

# Risk and Financial management Practice (cont.)

- iii. **Supported by information technology**
  - *Claims trends analysis*
  - *Accuracy and efficiency of transactional processing*
  - *Aggregate information to support pricing, reserving and supply chain management*
  
- iv. **And capacity to change**
  - *Innovation in all competencies*
  - *Harness latent consumer power*
  - *Move from passive to active (purchasing, disease management)*
  - *Synthesize actuarial and epidemiological skills to enable better investment in product; demand, prevention and supply management*

## What Can We Learn?

- i. **In spite of a fragile business model, VHI has survived if not flourished**
  - Consumer appeal
  - Strong commercial focus
  - Financial strength (or benign regulation) has been key
  - Capital constraints in the not-for-profit model
- ii. **Generic management competencies which are expanding**
- iii. **Innovation and capacity to change**
- iv. **Transformation challenges**
  - From passive to active
  - From “gap” to “principal”

## If we are to implement?

- ❑ Contextual Differences (by country)
  - *political, economical, institutional, cultural, burden of disease*
- ❑ Scope of coverage
- ❑ Financial capacity before supply chain?
- ❑ Capital adequacy
- ❑ Regulatory levers
- ❑ Management toolkits

## Contextual Differences

- ❑ Population density and growth does not necessarily mean higher average per capita income
- ❑ Relative weakness of political and governmental institutions
- ❑ Health Insurance not an established concept
- ❑ Human capital and skills
- ❑ Access to and cost of capital
- ❑ Provider capacity/organization/sophistication
- ❑ Information and systems
- ❑ Burden of disease

## Scope of Coverage

- ❑ **Defined benefits, limited but expanding**
- ❑ **Country pre-conditions and burden of disease**
- ❑ **Formal versus informal sector**
- ❑ **Secondary versus primary care**
- ❑ **Insurer capacity**
- ❑ **Provider capacity**

# Financial versus supply chain capacity

- ❑ **Financial sustainability before health gain focus**
- ❑ **Horizontal integrators versus vertical?**
- ❑ **Actuarial skills before epidemiological**
- ❑ **Traditional passive mechanisms for management of supply**
  - **Product design**
  - **Fee schedules**
  - **Incentives**
  
- ❑ **Parallel process of pre-conditioning of supply ?**
  - **Group practice**
  - **Budget holding**
  - **Information sharing**
  - **Participation in governance**

## Capital Adequacy/Regulation

- ❑ Risk of financial shock greater
- ❑ Accumulation of liquid reserves invites fraud?
- ❑ Role of regulation
  - Prudential or behavioral or both?
- ❑ Role of re-insurance?

## Management Toolkits

- ❑ Actuarial/financial control cycles
- ❑ Product design/pricing
- ❑ Process flow/ CQI
- ❑ Scale of transactional processing and outsourcing/shared services