

Is health microinsurance sustainable? An analysis of five South Asian schemes

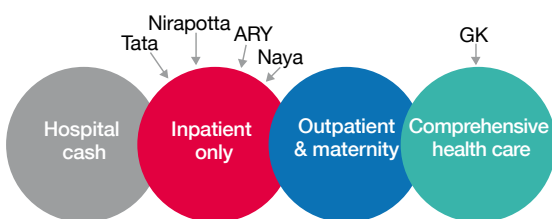
Briefing Note

Can health microinsurance (HMI) schemes achieve sustainability? This brief presents results from a review of the financial performance of five schemes in India, Pakistan and Bangladesh. These are:

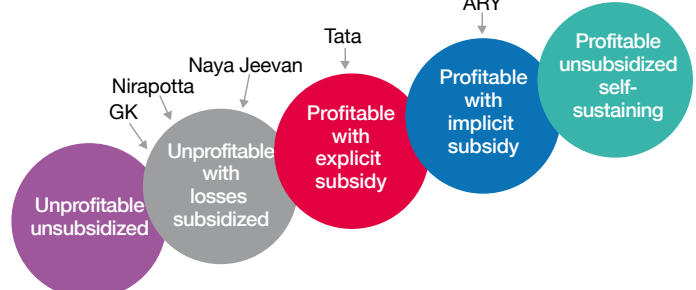
- Arogya Raksha Yojana (ARY): Underwritten by HDFC-ERGO in India.
- Tata AIG – Rashtriya Swasthya Bima Yojana (Tata AIG – RSBY): Tata AIG is a participating underwriter in this scheme, which is sponsored by the Government of India.
- Shasthayabima: Underwritten by Gonoshasthaya Kendra (GK) in Bangladesh. The GK scheme comes closest to comprehensive benefits, while the other schemes offer more limited benefits.
- Nirapotta: Underwritten by the SAJIDA Foundation in Bangladesh.
- Naya Jeevan: Scheme in Pakistan underwritten by various insurance companies and mediated by Naya Jeevan, which also provides value-added health services.

For the purposes of this brief, HMI is viewed across a spectrum of products that range from limited coverage hospital cash products to comprehensive health-care products.

Schemes along product spectrum

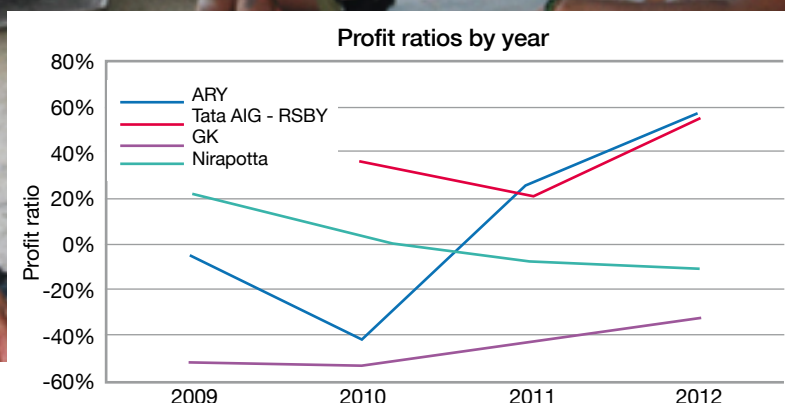


Schemes along the sustainability spectrum



From a pure business case perspective, sustainability means that a scheme's income (premium) meets or exceeds the scheme's outflow (claims and expenses). In other words, a sustainable scheme is a scheme that breaks even or makes a profit. The question arises as to whether a scheme can be considered sustainable if it receives some form of subsidy.

If sustainability is viewed as unsubsidized financial profitability, none of the HMI schemes in this study is sustainable yet. On the other hand, none of the schemes is unprofitable and hence unsustainable. All five schemes fall between the two ends of the sustainability spectrum.



DRIVERS OF SUSTAINABILITY

HMI sustainability is based on four drivers: (1) achieve scale, (2) control claims costs, (3) manage expenses, and (4) use subsidies.

Achieve scale: Schemes have used mobile enrolment technologies, public-private partnerships and mandatory sales (bundled with credit) to achieve scale. Small-scale HMI schemes raise concerns that private HMI initiatives may be fracturing the overall risk pool within a given geographic region. It would be advantageous if these smaller private schemes could coordinate with and complement or supplement larger government schemes.

Control claims costs: Controlling the claims ratio was the key issue for the schemes in this study. Schemes underwritten by for-profit insurance companies demonstrated the lowest claim ratios. In terms of controlling claim ratios, all the schemes have some sort of relationship with the providers of health-care services. This is via direct ownership of hospitals/clinics (SAJIDA and GK) or discounted arrangements (HDFC-ERGO with Biocon, Naya Jeevan with a network of empanelled hospitals and its own primary care centre, and Tata AIG with providers that have agreed to RSBY reimbursement rates). As schemes monitored experience, they modified benefits (for example, longer benefit waiting periods, different maternity cover, and limitations on key benefits) in order to lower claim ratios.

Manage expenses: Acquisition and claims settlement costs are driving schemes' expense ratios. The ARY and Tata AIG – RSBY schemes have managed their enrolment costs by investing in mobile enrolment technology; and ostensibly ARY, Tata AIG – RSBY, and Naya Jeevan have been able to control claims processing costs by creating cashless claim payment systems.

Use subsidies: All the schemes use one or more forms of subsidy. HMI subsidies can take many forms, such as cross-subsidization of losses from external or related entities, cross-subsidization of premiums between classes of insureds, explicit premium subsidies and implicit subsidies. As such, sustainability for all five schemes depends on their use of these subsidies. The future sustainability of HMI schemes appears to require the continued use of subsidies.

Housed at the International Labour Organization, the Impact Insurance Facility enables the insurance industry, governments, and their partners to realise the potential of insurance for social and economic development. The Facility was launched in 2008 with generous support from the Bill & Melinda Gates Foundation, and has received subsequent funding from several donors, including the Z Zurich Foundation, Munich Re Foundation, the World Bank Group, USAID and AusAID. See more at: <http://ilo.org/impactinsurance>