

Opening the insurance market – the health perspective

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The Economic Coordination Committee of the Cabinet on Wednesday the 27th decided to allow foreign companies to invest in the insurance business in Pakistan on the premise that this would help attract Foreign Direct Investment (FDI). There can be no two opinions about this being a right assumption *if* the necessary regulatory environment is secured. But then the other important factor critical to the success of this approach has to do with the issue of demand, which depends on the real disposable income of the prospective policy holder and the individual's perceptions about the need for financial security. In Pakistan's case where 67.7% of the population lives in the rural areas and given the low per capita income – the recent increases notwithstanding – the question of demand is all the more relevant and one that needs to be factored into expectations.

Then again to put things in context, FDI assume importance as it can impact macroeconomic indicators and again there is no arguing about the importance of the latter, but what is also of significance in this case in point is that here is also a case of a regulatory intervention, which has a bearing on social sector outcomes, particularly with reference to the role that can be played by insurance companies in health insurance. And therefore, in tandem with the government's policy of augmenting FDIs, attention must also be paid to other regulatory and overarching structural changes which can, on the one hand, assist in achieving a range of social sector outcomes whereas on the other, make it viable for insurance companies to invest in Pakistan. *Clearly with reference to the social sector opening up the market to foreign insurance companies cannot be seen as an end in itself.*

The case of health insurance, which is classed in the non-life insurance category will be used to illustrate this point. However here a distinction should be made between *Social Health Insurance* and *Private Health Insurance* in order to clarify that *Private Health Insurance* has a capacity to mobilize funds from people who can pay and wish to be insured; however it cannot provide financing for the poor. Health insurance arrangements for the poor come within the ambit of *Social Health Insurance*, which though more important is not the subject of discussion in this article.

In the first place, why do we actually need to think in terms of health insurance? The answer to this is embedded in the health financing landscape of Pakistan. The total health expenditure for Pakistan is estimated at US \$ 16 per capita; of this US \$ 6.3 is contributed by the public sector largely through general revenues and the rest by the private sector through out-of-pocket payments. When viewed against global recommendations which recommend public sector health expenditure to be at least US \$ 34 in order to deliver essential health interventions to meet

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Policy III

Secured, not protected

Opening up health insurance sector to foreign companies holds a lot of promise, though to realise its potential a lot needs to change first

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In the first place, why do we actually need to think in terms of health insurance? The answer to this is embedded in the health financing landscape of Pakistan. The total health expenditure for the country is estimated at \$ 16 per capita. Of this, \$ 6.3 is contributed by the public sector largely through general revenues and the rest by the private sector through out-of-pocket payments. When viewed against global recommendations which recommend public sector health expenditure to be at least \$ 34 in order to deliver essential health interventions to meet the needs of the population, Pakistan is far from doing well. The government's health financing strategy is clearly inadequate. It is here that the role of health insurance becomes important.

Private health insurance can be a game-changer – albeit small – in bridging the gap between the current health financing strategies and the nation's health sector financing goals.

The second question: What benefits when private insurance companies enter the health sector and why? There it must be understood that private insurance industry largely acts as a source of financing health in individual or group settings and with reference to latter, through employers, in particular, in Pakistan's case.

The third question: What are the impediments which need to be removed? This is a particularly relevant question given that after the passage of the Insurance Ordinance 2000 certain areas in non-life insurance such as motor insurance did quite well while the social sector was unable to reap the benefits of policy change. There are several reasons for this. Firstly, there is a lack of demand for health insurance owing to high cost of services. Secondly, the major bulk of Pakistan's workforce is in the informally employed sector and the

through the FDI policy of the government of Pakistan and the regulatory environment which the government provides for private insurance companies to register, insurance regulations can be used. Tax reliefs can be given and a certain level of financial protection can be provided to attract appropriate insurance companies. That these will be balanced with careful regulation of the financial practices of health insurance industry, patient oriented standards and norms, transaction standards, health service providers' primary rates, procedures for claims processing and audits of payment, accountability procedures and other administrative back office procedures – clearly pointing to significant institutional capacity which will be required at Pakistan's end to regulate this market. There are also concerns that coming under the regulatory purview and opening up of a new sector will have a negative impact on the health industry's interest. There

it should be considered. An attempt to govern health insurance through state mandated healthcare approaches may play a predominant role. In the state policy within the healthcare system other than the state play a role in providing personalized curative healthcare which is what private insurance industry generally works around.

The sector constitutes a set of diverse groups of unorganized health care providers. Clearly the regulatory side of credentialing of doctors, licensing and accreditation of service delivery facilities, continuing medical education, performance assessment, quality assurance evaluations and the monitoring of errors are important regulatory imperatives in order to institutionalize health insurance. And it is within the framework of these regulatory interventions that enhancing the use of insurance as a health financing option can be built. There is evidence available that the right regulatory interventions do work. For

may be ways of obtaining this concern through measures such as cap on property tax. Useful lessons can be learned from other countries that have developed similar policies.

The second stakeholder is the employer. This is essential in the single largest factor which determines the growth of the insurance industry in Pakistan. A review of the growth of private insurance companies in the developing countries shows that growth is generally paralleled with economic growth in general and growth of the formally employed sector in particular. In some developing countries, insurance companies have been successfully created as spin-off entities from existing enterprises. Pakistan can offer tax reliefs and other incentives to employers to encourage them to invest in health insurance. However, a strict, government-owned health insurance approach in order to financing health in institutional settings.

The third stakeholder is the policyholder. This is the large number of people in the developing countries who are not insured. The way of doing this is to make the insurance a large number of people in the developing countries who are not insured. The way of doing this is to make the insurance a large number of people in the developing countries who are not insured. The way of doing this is to make the insurance a large number of people in the developing countries who are not insured.

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The poor patients: Problems in outreach.

health

MDGs by 2015, a huge gap is clearly evident. And it is here that the role of alternative health financing options becomes important.

Private health insurance certainly has a place – albeit small – in bridging the mismatch between the current health financing strategies and the nation’s health sector financing goals.

The second question: who benefits when private insurance companies operate in the health sector and why? Here it must be understood that private insurance industry largely act as a source of financing health in individual or group settings and with reference the latter, through employers, in particular.

The third question: Where are the impediments then, which need to be addressed?

This is a particularly relevant question given that after the passage of the Insurance Ordinance 2000 certain areas in non-life insurance such as motor insurance did quite well whereas the social sector was unable to reap the benefits of policy change. There are several reasons for latter. Firstly, there is lack of demand for health insurance owing to high cost of service. Secondly, the major bulk of Pakistan’s workforce is in the informally employed sector and the absence of financial guarantees to the insurer results in limited incentives for health insurance companies to cover the informal sector.

Thirdly, there are issues at the end of health providers with the market being fragmented and professional practices not being accredited. Health care providers also do not ‘buy into’ health insurance given that this has tax-related implications. These considerations underscore the need for building appropriate incentives at several levels.

The fourth question: what are these incentives, where are the handles and what are the solutions? The solutions lie in carefully balancing incentives for the three key players in this arrangement – Insurance companies, Providers and Employers – through appropriate policy interventions.

As far as the first stakeholder is concerned – *Insurance companies*, it is important to attract companies that can draw a large number of people in a pool; however this is dependent on the capacity of the insurance company and only those with large institutional bases, investment capacities, and a rich domain experience are able to create such incentives. An analogy can be made with the growth of mobile phone industry in the developing countries and indeed in Pakistan where companies have leveraged on their domain experience in the developed world. Appropriate incentives can be given through the FDI policy of the Government of Pakistan and the regulatory environment which the Government provides to regulate financial practices of health insurance industry. For example, insurance regulations can be eased and tax rebates and a certain level of financial protection can be given to attract appropriate insurance companies. However these conducive measures should be balanced with careful regulation of the financial practices of health insurance industry, patient centered standards and norms; transaction standards, health service providers’ privacy rules, procedures for claims processing and modes of payment, accountability procedures and other administrative back office procedures – clearly pointing to significant institutional capacity which will be required at Pakistan’s end to regulate this market. Then there would be concerns that easing of insurance regulations and opening up of a new sector is at the cost of the local industry’s interest. However there may be ways of obviating this concern through measures such as cap on equity etc. Useful lessons can be learned from other countries that have developed similar policies.

The second stakeholder is the employer. This is essentially the single largest factor which determines the growth of the insurance industry within the country. A review of the growth of private insurance companies in the developing countries shows that growth is generally paralleled with economic growth in general and growth of the formally employed sector, in particular. In some developing countries, rise in business process outsourcing created opportunities for global employment practices thereby creating an environment where employers subscribed to health benefits. For a start, the Government of Pakistan can offer tax rebates and other incentives to employers for introducing/mainstreaming the health insurance approach to financing health in institutional settings.

The third stakeholder is the provider, to whom appropriate incentives should also be given to subscribe to health insurance. One way of doing this would be through underwriting a large number of people in a pool – an opportunity providers would wish to avail and may compete for, hence brining down costs. Only insurance companies with the right capacity will be able to do that, as already discussed. On the supply side, the provider

market should be consolidated. As opposed to preventive healthcare where State mandated healthcare agencies play a pre-dominant role, a number of actors within the healthcare system other than the State play a role in providing personalized curative healthcare, which is what private insurance industry generally works around.

The sector constitutes a set of diverse group of unregulated health care providers. Clearly the regulatory side of credentialing of doctors, licensing and accreditation of service delivery facilities, continuing medical education, performance assessment, quality assurance mechanisms and the monitoring of errors is an important regulatory imperative in order to institutionalize health insurance. And it is within the framework of these regulatory interventions that appropriate incentives for enhancing the use of insurance as a health financing option can be built. There is evidence that the right policy interventions do work! For example, motor insurance showed growth over the last decade. In many ways, it may not be fair to compare this with health insurance due to the differences in the nature and frequencies of risks involved – people get sick more often than they lose cars to accidents and robberies! Notwithstanding, conducive measures need to be explored for the health sector and the handles on the impediments need to be understood.

Over the last few decades, of the 54 private health insurance companies operating in Pakistan, group health insurance is offered by seven insurance companies and individual health insurance by only one company – Allianz EFU. Clearly we are not a conducive market for private and group health insurance. However, with economic growth and consequently and hopefully, the adoption of global employment practices, it is expected that employers will increasingly subscribe to health benefits. The health sector can only tap the potential within such arrangements if they know where to intervene through normative and regulatory interventions on the health side to capitalize on this specific health financing opportunity. The health sector will, it seems, have an opportunity to ride a wave; but they must know how to do it well.

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