

Zambian private health insurance: optimal regulation and market development

Terms of reference

26 October 2009

The Centre for Financial Regulation and Inclusion

USB Bellville Park Campus, Carl Cronje Drive, Bellville, 7530, South Africa

+27 21 918 4390

www.cenfri.org

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1. Introduction

The Centre for Financial Regulation and Inclusion (Cenfri) is a non-profit research centre, established in March 2008 with support of the FinMark Trust. Cenfri's mission is to support financial sector development and financial inclusion through facilitating better regulation and market provision of financial services. We do this by conducting research, providing advice and developing capacity building programmes for regulators, market players and other parties operating in the low-income market.

Cenfri was appointed to manage the FinMark Trust's research on microinsurance. Created with initial funding from the UK's Department for International Development, FinMark Trust is an independent trust whose business is controlled by five trustees from countries in Southern Africa. Its mission is summarised in its slogan: "Making financial markets work for the poor". In pursuit of this objective, FinMark Trust supports and promotes institutional and organisational development towards the objective of increasing access to financial services by the un- and under-served of Africa.

This project will be funded by the FinMark Trust and managed by Cenfri on behalf of the FinMark Trust. More information on Cenfri and the FinMark Trust can be found at www.cenfri.org and www.finmark.org.za.

2. Background

Impact of limited healthcare on the poor. Health financing and services are critical in the alleviation of poverty and vulnerability. The combination of loss of income and the costs incurred by lower-income households during periods of illness can have a devastating effect on their welfare. This often forces households to dispose of hard-earned assets, eat into savings (when this is available) or even take children out of school to augment the family's earnings. Such events do not only have a major effect on the present generation but also undermine the intergenerational transfer of wealth and gradual emergence out of poverty. In contrast, appropriate healthcare can increase a person's working life even for severe illnesses such as HIV and AIDS. This does not only improve the quality of life for patients, but allows them to provide for their families.

Access depends on both healthcare funding and services. Access to appropriate healthcare is dependent on the availability of healthcare financing, as well as the availability of a healthcare services network that is able to deliver services funded by these financing mechanisms. In understanding the overall functioning of the health system, consideration needs to be given to both the health financing and services components and their interaction.

Three sources of funding are currently used in Zambia to finance healthcare:

- Public funding for the public health system.
- Private funding relying on insurance products.
- Private out-of-pocket (OOP) expenditure to purchase medical services. This funding source does not entail any risk pooling.

Given that this Terms of Reference (TOR) has a particular interest in the Zambian health insurance market, the rest of the discussion focuses on the nature of this market.

Private health insurance in Zambia

(Source: Extract (p.57-62) from Hougaard, C., Chamberlain, D. & Aseffa, Y., 2009. *Towards a strategy for microinsurance market development in Zambia: A market and regulatory analysis*. July 2009. Centre for Financial Regulation and Inclusion research for the ILO, UNCDF, FinMark Trust Zambia and FinMark Trust South Africa: Cape Town. Document can be downloaded at www.cenfri.org.)

In Zambia as in many other jurisdictions, one should distinguish between medical or health insurance on the one hand and medical schemes (also referred to as medical aid organisations or societies) on the other hand. In the case of Zambia, the former are regulated insurers, whereas the latter are effectively unregulated at present. Apart from that, the models operate essentially the same: both offer indemnity cover (payment of actual medical fees) rather than capital health insurance (a fixed pay-out upon a medical trigger such as hospitalisation).

Health insurers required to operate under long-term insurance licenses. Although health insurance is not explicitly mentioned in insurance regulation, the Pensions and Insurance Authority (PIA) deems health insurance to fall under the long-term insurance category and requires health insurers in Zambia to register as long-term insurers under the Insurance Act, regulated by PIA. However, as will be shown below, the uncertainty created by the absence of specific references to health insurance in legislation has led to a market developing outside of the regulator's net.

Low overall penetration of both regulated and unregulated health insurance. Whether regulated or not, the penetration of any kind of health insurance remains low. According to FinScope, only 1.2% of adults report having medical insurance of any kind. This amounts to only about 90,000 people. The FinScope results indicate that 0.9% of adults have "health cover" from a doctor. 1.8% of all those with insurance furthermore indicated that they belong to a "hospital scheme". Though it is not clear what definition was attached to these terms, it does indicate at least some health scheme activity outside of the registered insurance companies.

All health insurance provided on risk-rated basis. Irrespective of whether the schemes are regulated or not, all health insurance is provided on a risk-rated basis. The implication is that individuals (or rather employer groups) are charged relative to their risk profile. Schemes are also not compelled to provide cover and can, therefore, reject cover to specific individuals or groups and may also cancel cover for those already covered. This type of system is likely to bias coverage against higher risk categories of clients and, if not controlled, may lead to long-standing coverage being cancelled for older clients as their risk profile deteriorates. In designing its overall health policy the government of Zambia would have to consider its long-term objectives of universal access to health care services and how the current system will support this or not.

Four types of providers of health financing. Four categories of health financing providers can be distinguished of which only the first category is regulated in Zambia: (i) medical insurers regulated under the life insurance act; (ii) medical schemes not regulated in Zambia,

including a voluntary government employee medical scheme, (iii) hospitals offering their own unregulated plans; and (iv) employer-based health fund schemes (which do not technically amount to insurance, but may be administered by an insurer).

- *Medical insurers regulated under life insurance act.* There are only two registered players in the Zambian health insurance market: Madison Health Solutions (a subsidiary of Madison Life) and Professional Life. Both players are still largely focused on the higher-income end of the market through employer-driven health insurance plans. They offer various in- and outpatient cover packages with premiums ranging from \$115 to more than \$300 per family per annum, depending on the limits applied. One more company has indicated its interest in registering as a health insurer.
- *Medical schemes* (as opposed to regulated medical insurers) can take various forms. The most formal schemes may be administered and underwritten by insurers registered elsewhere but not in Zambia, but some are not underwritten at all.
 - *Independent unregulated medical schemes.* Schemes that are not regulated for providing insurance by PIA but may have underwriting from foreign insurance companies.
- *Unregulated hospital schemes.* Apart from these medical schemes, a number of hospitals also offer in-house schemes whereby clients can access the medical services at a fixed monthly or annual fee. Private hospitals in Zambia tend to be individually owned and do not operate in a network. Thus the services covered would be limited to the hospital in question.
- *Employer-based health funds.* Furthermore, a number of employers fund their employees' medical expenses directly. Often, this is administered by a third party administrator such as Madison Health Solutions – the health administration and brokerage arm of Madison Life. The employer establishes a fund from which expenses are paid. Employees do not directly contribute to this fund. Expenses are limited to the funding available so no risk transfer takes place and the employer has no liability for expenses beyond the value of the fund. This therefore falls outside the definition of insurance

Current market dynamics

In addition to the above characteristics of the health insurance market, the market is also influenced by the following dynamics:

Ministry of Health plans on establishing Social Health Insurance (SHI), but process has ground to a halt. The National Health Insurance Fund (NHI) of Tanzania released its actuary to complete an actuarial assessment of the viability of SHI for Zambia. The final report was released during October 2008 and suggests the basic outlines for a SHI for Zambia. This includes a proposed compulsory contribution of 5% of income for all formally employed individuals in Zambia, with sharing of the contribution between the employee and employer. Planning documents of the Ministry of Health indicated that it wanted to have established the SHI fund by October 2009, with marketing commencing by November 2009. However, since signs of possible internal fraud at the department of health emerged during early 2009, international donors have suspended funding to the department of health since March 2009.

This has meant that in terms of spending priorities SHI is now a lower priority and SHI planning is progressing at a slower pace than initially expected.

Concerns about ability of certain registered and unregistered players to manage risks effectively. Concerns were noted by different insurance players and the Pensions and Insurance Authority (PIA) about the ability of certain registered and unregistered players to manage their risk effectively. According to one company, the industry was aware of at least one registered insurer experiencing financial difficulties due to higher than expected claims from its health business.

Costs of private health services are high, even more so in absence of central bargaining or industry body for private health insurers. Given the unlevel playing field between different health insurance companies (registered and unregistered insurer), the industry has not been able to establish an industry body to represent the insurers in negotiations with private health service providers. Some of the insurers note rapidly escalating provider costs as a major problem for the industry.

3. Project objectives and scope

3.1. Objectives

The study has four main objectives:

- Investigate the role that private health insurance could play in facilitating access to health services in Zambia as part of Social Health Insurance;
- Provide an overview of the health services landscape on the back of which health financing mechanisms will be structured and delivered;
- Assist in clarifying legal uncertainties related to the current state of health insurance regulation in Zambia; and
- Provide inputs to the discussion on the most appropriate future regulatory approach for private health insurance in Zambia.

These objectives serve the broader goals of market development and financial inclusion in creating an optimal health financing environment in Zambia.

3.2. Scope

The consultancy will cover:

- A review of the current state and nature of the Zambian private health insurance market. This should include an assessment of how the absence of health insurance-specific regulation has affected the development of the insurance and services markets and is likely to impact on the future development of the market.
- Review the current financing mechanisms available and specifically those mechanisms serving low-income households.

- Recommendations on creating an appropriate regulatory framework for private health insurance in Zambia in the interim period before the implementation of Social Health Insurance, as well as recommendations on continued regulation of the sector after implementation of SHI.

This will require:

- **Desktop research**, where possible, to assisting in establishing a picture of the current health insurance market in Zambia and how private health insurance could assist in supporting the development of the larger health financing environment.
- **Consultations** with the Pensions and Insurance Authority (PIA), the Ministry of Health and other key health stakeholders such as the World Health Organization's branch in Zambia to understand current regulatory approaches and challenges, and ideas on future regulatory approaches. In particular, the consultations with the Ministry of Health should include a focus on understanding the planned implementation of SHI, the pace with which this is proceeding and the likely role that the Ministry of Health sees the private health insurance market playing in SHI.
- **Consultations** with *registered and unregistered* health insurance providers to understand the nature of their business and, in particular, the following questions:
 - Number of policyholders and lives covered;
 - Nature of products and cover provided;
 - Past and current risk dynamics, e.g. occurrence of anti-selection, ability to accurately price for risk, etc.;
 - Key issues current affecting the industry; and
 - Challenges encountered in operating in a sub-optimal regulatory environment and reasons for why (unregistered) providers have not chosen to register as life insurance companies.
- **Consultations** with selected private health services providers in order to form a high-level picture of the Zambian private health services market.

3.3. Deliverables

1. A concise draft report should be submitted to Cenfri for comment by end-February 2010. Cenfri will provide comments before the middle-March 2010.
2. The report should cover at least the following topics:
 - Private health insurance landscape: players, products and take-up.

- Overview of the private health services landscape: key players and cost issues (given the budget constraint, the consultant should be clear in their proposal on the depth that can be covered).
 - Key issues emerging from the interaction between private health insurance and private health services in Zambia, e.g. cost increases due to service costs, ability to contract with designated services providers, price negotiation, etc.
 - Previous attempts by the Pensions and Insurance Authority to create appropriate health insurance regulation and challenges encountered in these attempts.
 - Possible roles that the current private health insurance sector could play in supporting the Zambian government and Ministry of Finance’s planned Social Health Insurance Scheme as part of a broader health financing reform process.
 - Recommendations/ideas on how to regulate private health insurance in Zambia in the interim period before the implementation of Social Health Insurance (SHI), as well as recommendations on continued regulation of the sector after implementation of SHI.
3. A final publishable report addressing comments on the draft report should be submitted to Cenfri by end-April 2010 (6 weeks after submission of the draft report).
4. A Powerpoint presentation of the results to be presented at a stakeholder workshop in Lusaka, Zambia. It is suggested that the workshop takes place before finalisation of the report to include comments and input from stakeholders. However, the timing of the workshop is negotiable.

4. Contents of proposal

This TOR does not seek to provide a definitive list of issues to be covered as this will be pre-empting the outcomes of the project. We strongly encourage consultants to propose other issues or different frameworks which they believe essential to meet the core objective of the study. The evaluation process will reward originality and the substance of approach suggested. Individual consultants or consulting firms may submit proposals.

Proposals to undertake this project must include:

1. Statement of qualifications of firm(s)
2. Name & CV of staff members responsible (i) for overseeing the work; (ii) for undertaking the work.
3. The key issues that consultants think should be covered. This should be based on the issues highlighted above, but should ideally expand on them or highlight other issues to be considered.
4. The methodology to be followed.
5. Fee proposal & costs estimate, indicating the basis of calculation of fees.
6. Affirmative action scorecard (this applies only to South African consultants). Please also see Section 6 (below) on the weighting given to economic empowerment.

5. Budget and timeline

Budget. We foresee an indicative project budget of R250,000 (VAT *inclusive*). This amount includes direct costs such as travel and accommodation. This will be reimbursed on an actual cost basis and consultants should plan for at least two trips to Lusaka, Zambia of which the first will be to gather data and information through interviews and stakeholder engagement and the second to present the findings of their study at the stakeholder workshop. It is envisaged that the first country visit will require at least a full week of the consultant's time. Consultants are encouraged to tailor the scope and required analysis to work within this budget.

Proposal deadline. Proposals to undertake this work should be received by close of business on **Friday, 13 November 2009**. Proposals should be forwarded electronically to Anja Smith at anja@cenfri.org, copied to Tessa Kock at tessa@cenfri.org.

Commencement of project. It is envisaged that the project will be awarded no later than **Friday, 20 November 2009**, with work commencing as soon as possible thereafter.

6. Basis of award

Cenfri will award the contract according to FinMark Trust procedures, based on:

Indicator	Weight
Relevant, demonstrated competence of firm/consultant in this area	25%
Demonstrated expertise of key individuals to be involved in this project	30%
Content, quality and originality of proposal ¹	20%
Fee basis	15%
Economic empowerment*	10%

***Please note:** South African consultants are required to report on their affirmative action status (including ownership, management and staff development) in their proposal, while all consultants (including South Africans) are required to report on the level of Zambian (local) participation in their proposal.

7. Contact

Questions or comments in respect of these terms of reference should be submitted to Anja Smith (anja@cenfri.org or +27 21 918 4390).

¹ This evaluation criterion rewards proposals that provide a clear methodology/framework on how to approach the assignment, demonstrates that the consultant has some insight into the subject matter and understands the study objectives. Proposals that simply repeat the Terms of Reference (TOR) will score zero on dimension.

8. Recommended readings

Hougaard, C., Chamberlain, D. & Aseffa, Y., 2009. *Towards a strategy for microinsurance market development in Zambia: A market and regulatory analysis*. July 2009. Centre for Financial Regulation and Inclusion (Cenfri) research for the ILO, UNCDF, FinMark Trust Zambia and FinMark Trust South Africa: Cape Town. Available at: http://www.cenfri.org/documents/microinsurance/2009/ILO%20FMT_Zambia%20microinsurance%20review_final%20draft_31%2007%2009.pdf

Republic of Zambia, Ministry of Health, 2008. *First actuarial assessment report on the establishment of a Social Health Insurance Scheme in Zambia*. November. Republic of Zambia, Ministry of Health. **(An electronic copy of the report is available from Cenfri on request.)**

World Bank, 2004. *Community health financing schemes in Zambia: Constraints, prospects for scalability, and global examples for potential replication*. April. African Regional Human Development, World Bank. **(An electronic copy of the report is available from Cenfri on request).**