



Expanding Insurance Coverage through NHIF

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Snapshot of NHIF

	June 2006	June 2010	June 2012
Number of members (Total)	1.75 million	Total: 2.8 million	3.2 million
Formal sector	1.9 million (FY 07)	2.3 million	2.4 million
Informal sector	0.27 million (FY 07)	0.5 million	0.8 million
Number of members + dependants	4 million	9.6 million	12.3 million
Total contributions received (Ksh)	Ksh 3.5 billion	Ksh 5.7 billion	Ksh 9.4 billion
Total benefits paid out	Ksh 1.1 billion	Ksh 3.1 billion	Ksh 5.6 billion
Administrative / operating expenditure	Ksh 1.3 billion	Ksh 2.5 billion	Ksh 3.1 billion
Number of claims	136,180	303,000	423,354
Amount of average claim (Ksh)	Ksh 6,986	Ksh 10,028	Ksh 13,200

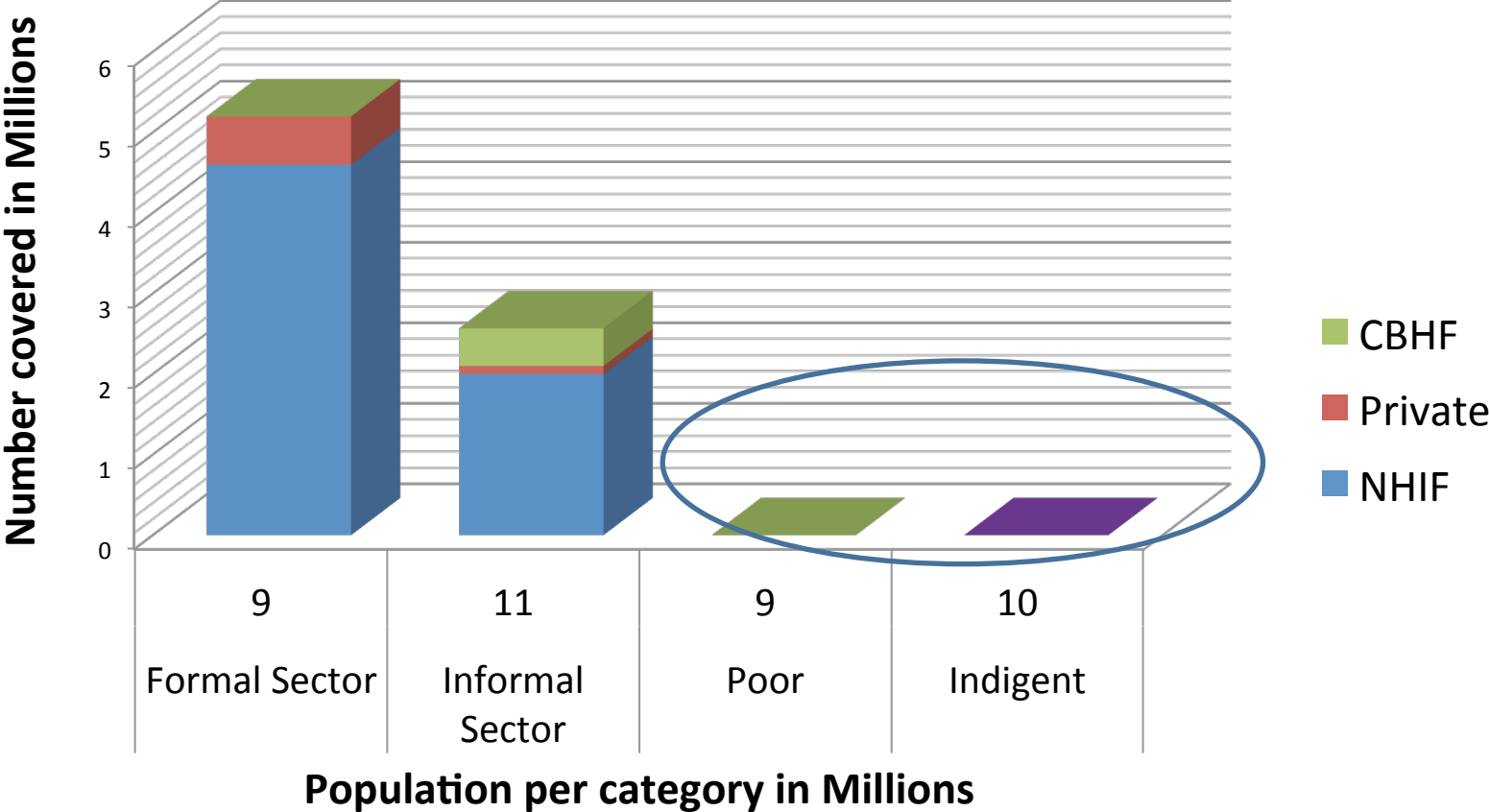
NHIF has had some notable successes in the past 5 years

1. NHIF's membership has grown during the 5 year review period (from FY 2006 to FY 2011), growth by 13% p.a.;
2. NHIF has increased coverage of the informal sector from less than 200,000 in 2005 to 531,388 as at June 30 2010.
3. The total contribution revenue has increased from Ksh 3.1 billion in FY 06 to Ksh 5.6 billion in FY 10 and Ksh 9.4 billion in FY 2011
4. NHIF has increased the level of pay-out of benefits to members and their beneficiaries. The pay-out ratio has increased to 60% in FY10 from 32% in FY06 – in Ksh grown from Ksh 1.1 billion to Ksh 3.1 billion. Currently at 60%
5. Increasing investment in ICT including revenue collection, EFT payments, use of MPESA, online registration and online banking.

NHIF has had some notable successes in the past 5 years

6. NHIF on average pays claims between 14 to 21 days compared with the best paying private insurers who pay within 30 days or the worst who pay within 60 to 120 days.
7. Within the last 5 years from FY 06, NHIF has progressively been increasing the rebates on its inpatient package – improvements of 71% in 5 years
8. The Fund has contracts with 645 hospitals, accounting for 44,299 beds in Kenya against a total of 49,000 beds – covers close to 100% of all hospitals in Kenya
9. Imminent full scale implementation of outpatient services will be a major improvement in the level of service offered to members.

Kenya still has a very large uninsured population – estimated that only 18% have any form of health insurance coverage



NHIF has a key role to play for Kenya to achieve universal coverage

There needs to be institutional transformation,
focusing on:

1. Governance and accountability
2. Efficiency and effectiveness
3. Financial sustainability

Governance and accountability

Recommendation 1: Governance and accountability

NHIF is in the process of ensuring full trust and accountability to its members (contributors) and the general public in order to attract more members and improve confidence in the institution.

- Enhance the Board of Directors' fiduciary responsibility by defining specific skills required (financial management, investment), ensure appropriate representation of members / contributor groups
- Conduct periodic independent Board performance evaluations
- Periodic public disclosure of financial and operational data (e.g. quarterly publishing in media / website)
- Continuous communication to public and members on benefits (publish a benefit schedule), public forum to engage with members, establish an ombudsman or grievance channel through existing Government ombudsman
- Become a 'risk intelligent' organization: fully operationalize organization wide risk management

Effectiveness & Efficiency

NHIF must (innovatively) increase active membership in the informal sector – 10 million Kenyans

- **NHIF best placed to scale up membership – already has the largest coverage numbers**
 - Continue to target existing groups (e.g. matatu SACCOs, development groups)
 - Targeted communication of benefit of membership to the informal sector groups
 - Develop incentives to recruit and attract contributions
 - Target to reduce levels of inactivity (e.g. remove disincentives, incentives for pre-payments, easy payment methods for individual members, ease of movement from formal to informal membership and vice versa)

NHIF must be a 'strategic' purchaser of healthcare to enhance service to members

- **NHIF should overhaul its existing provider payment mechanisms**
 - Move away from current rebate based payment system to more cost effective payment modalities for providers (fixed reimbursement, capitation)
 - Review payment modalities for each category of contract
 - Drive incentive programmes with Facilities to partner in attracting and retaining members
 - Publish ratings of facilities to encourage high quality treatment of NHIF members
 - Utilize costing data to inform purchasing decisions and negotiations

Increase efficiency by aligning processes and people to ICT

- **There is an opportunity to improve operational processes and increase effectiveness with optimal ICT deployment**
 1. Member registration process has been fairly lengthy, requiring documentation and is manual in some aspects
 2. Customer service can be enhanced with technology – increasing channels to customers (NHIF website, call centers etc.)
 3. Claim processing, though fast has too many handovers and can be shortened. Initiative is currently under way and has resulted in a shorter process

Mandate of NHIF (Per NHIF Act) requires provision of both in-patient and outpatient benefits

- **Benefits package has been improving e.g.**
 - New maternity cover available at a wider range of facilities
 - Increasing average rebate rates – an increase of 70% from 2006 to 2010
 - Deliberate strategy to increase the number of Category A and B contracts with smaller private, faith based hospitals has increased access.
- **However...**
 - Primary benefit remains 'inpatient cover' based on length of stay
 - NHIF most comprehensive 'depth' of cover mainly achieved at public health facilities – under Contract A or smaller private and mission hospitals under Contract B
 - Public facilities face significant supply side constraints – accessibility, location, quality of service
 - High cost of care under Category C limits the depth of NHIF's cover in this category
 - Effective outpatient cover is non-existent

Efficiency gains recorded over the past 5 years

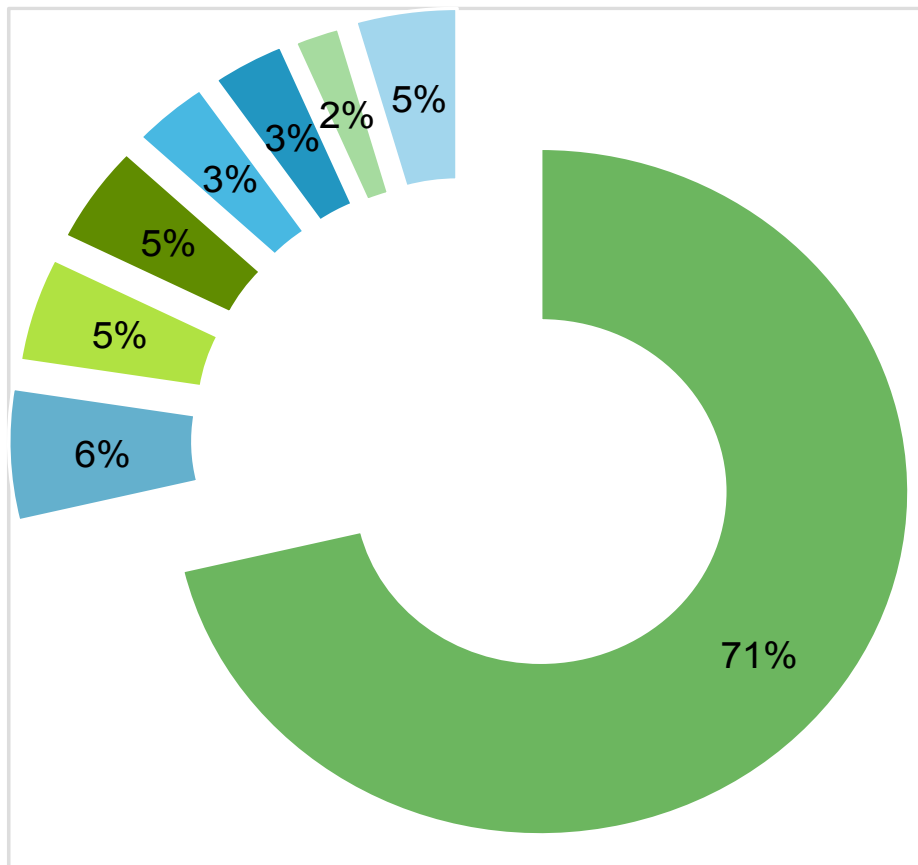
- **The operating cost to income ratio has reduced to 45% in 2010 – in an environment where contribution rates have not changed in 20 years**
- **Some of the gains include:**
- Improving turnaround times in key processes e.g. speed of claims payment and collections has increased
- The Fund is more reliant on technology in its operational processes
- **However,**
- Though the expense ratio has been falling in past 5 years from **70%** to 32% - but last 3 years have been flat – no further economies of scale?
- Staff costs the highest category (71%) – there's an opportunity to align staff to ICT for efficient processes.

Internal efficiencies are a key priority of NHIF and the Fund aims at achieving economies of scale

- **NHIF has increased payout ratio from 32% to 60% currently from FY 06 ; Operating expenses have been reducing over the 5 years to 32% currently**
- Increasing investment in ICT, cumulative investment of Ksh 923 million over FY 06 to FY 10
- Staff have reduced to 1,629 in 2012 with 85% based in field / Branches and only 15% in HQ but still account for 70% of admin expenses
- Core processes: member registration, claims processing and payment, quality assurance and review carried out using the integrated ERP system
- Opportunities to further streamline the process exist in member registration, claims processing and revenue collection, through optimising use of ICT
- NHIF efficiency must be balanced with effective risk management – risk management still being fully operationalized across operating functions

Personnel expenses comprise 71% of total operating expenses

Expenses per category in FY10

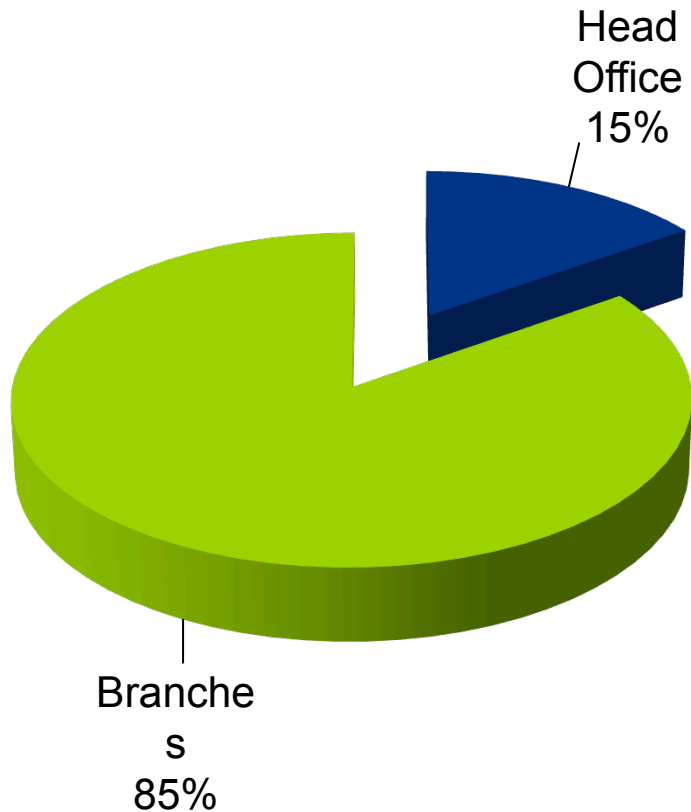


- Personnel expenses
- Travelling, accommodation & transport operating expenses
- Rent, rates, cleaning & maintenance, security, electricity & water conservancy
- Communication - Telephone, printing, stationery & postage
- Advertising & publicity & public notices & registration campaigns
- Maintenance of office & computer equipment
- Security card printing
- Other

Source: Management information & Deloitte analysis

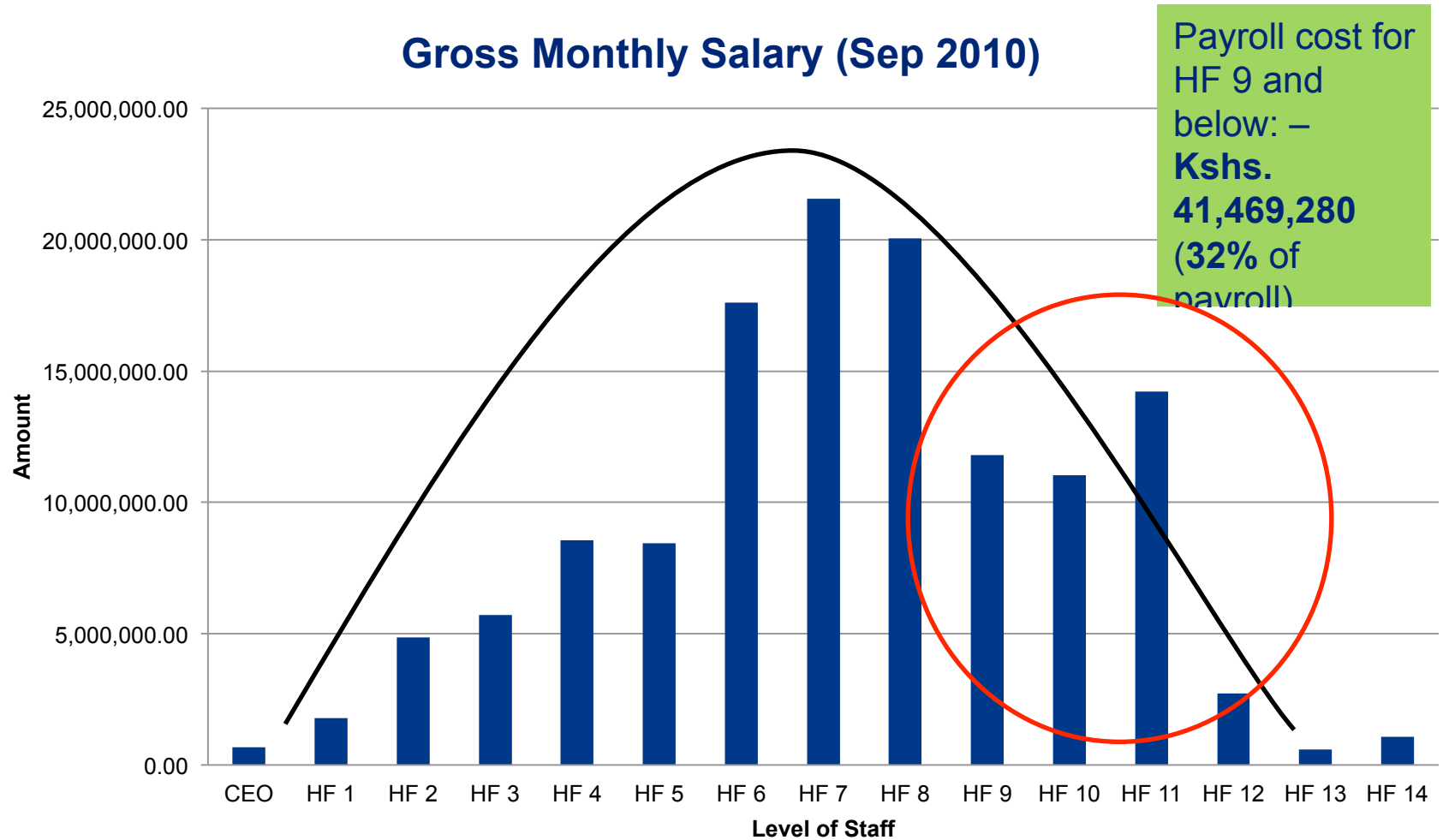
NHIF Staff Deployment

Distribution of Staff



- Staff have been largely deployed in the Branches.
- Further decentralization expected with staff being placed at the providers.
- Staff per contributor ratio: 1/1,718 (reasonable)
- More staff are available to provide services where the members are located.
- Have sought to maintain lean staffing at the HQ

NHIF Staff Cost Analysis – Payroll Costs for Sept 2010 Kshs 130,735,973



•NHIF's average personnel costs benchmarked to similar local institutions – appear to be reasonable

Expenses benchmarking

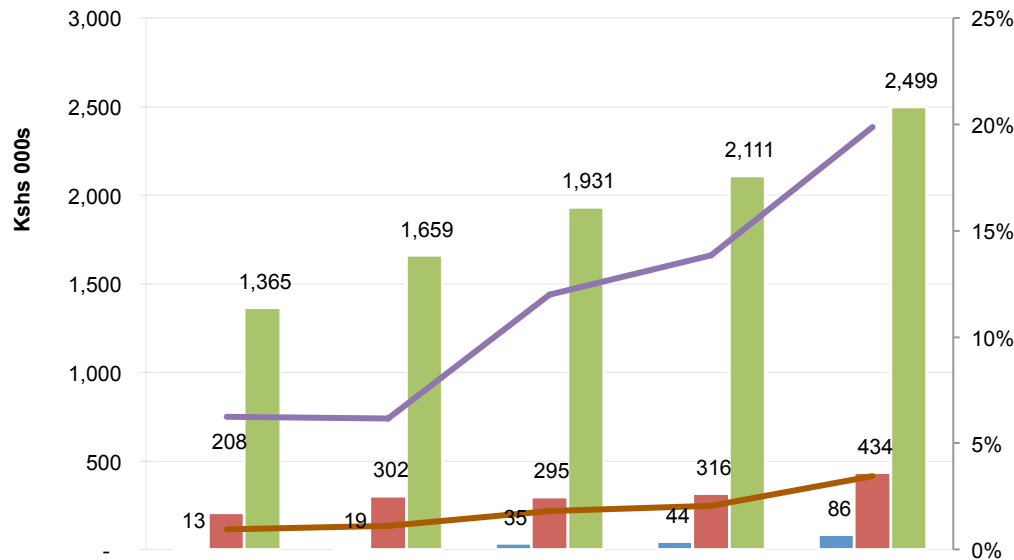
Kshs 000	NHIF	NHIF	NSSF	KCB Group	NBK	KWS	Consolidated Bank
	Audited FY09	Unaudited FY10	Audited FY09	Audited FY09	Audited FY09	Audited FY08	Audited FY08
Personnel costs	1,547,260	1,781,889	2,479,920	7,144,078	1,986,720	1,848,458	236,127
Operating costs	827,326	946,761	892,530	8,431,413	1,446,957	1,431,279	552,150
Provisions*	-	-	1,525,499	-	-	-	-
Total costs	2,374,586	2,728,650	3,372,450	15,575,491	3,433,677	3,279,737	788,277
Staff numbers	1594	1618	1,800	4,083	1,413	3,950	200
Branch numbers	27	31	40	203	45	33	12
Personnel costs/staff (000's)	971	1,101	1,378	1,750	1,406	468	1,181
Operating costs/staff (000's)	519	585	496	2,065	1,024	362	2,761
Operating costs/branch (000's)	30,642	30,541	22,313	41,534	32,155	43,372	46,013
Total costs/branch (000's)	87,948	88,021	84,311	76,727	76,304	99,386	65,690

* The NSSF total costs exclude provisions of Kshs 1.5 billion for comparability purposes.

Source: Audited financial statements & NHIF management accounts

NHIF has been investing heavily in ICT over the past 5 years

Information Technology Expenditure



- Total IT expenditure
- Other administration expenditure*
- Total operating costs
- IT/Other admin expenses*
- IT/Total operation costs

Source: Management information

- Total ICT investments since 2005 to 2010 have increased to KES 923 Million
- ICT investments grew by a compound annual growth rate (CAGR) of 18% over 2005 – 2010.
- Value of ICT investments not fully realized as yet

IT Utilization deployment has helped boost NHIF's image with providers and contributors

- **The significant advantages Information Technology has assisted NHIF has been through:**
- Enhancing cash collection by leveraging various collection centers such as banks, use of mobile money transfer
- Easing registration of contributors where in some areas, NHIF is able to take and upload the pictures
- Allowing payments to be undertaken centrally through the headquarters by leveraging on EFT
- Connecting health facilities which assists in patient detail capture, verification thus enhancing the payment cycle as this details are captured online

Financial sustainability:

NHIF is in the process of addressing its longer term financial sustainability issues by ensuring sufficient revenue, continuing to reduce operating expenditure and restructuring the balance sheet

- **Reducing operating expenditure:**

- Ensure economies of scale by fully leveraging ICT, improving processes, effectively utilizing staff
- Focus on purchasing healthcare

- **Restructuring the balance sheet:**

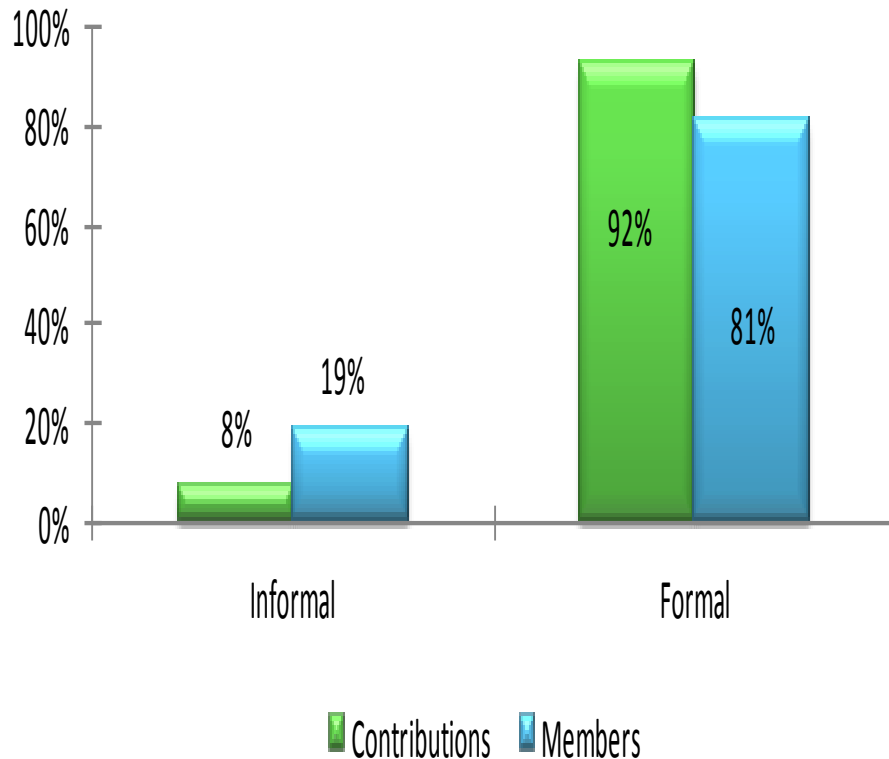
- Gradual disposal of illiquid assets
- Improve current investment policy to focus on liquidity, solvency and ensure adequate returns

- **Increase funding to NHIF:**

- Automatic mechanism of increasing contributions (matching inflation)
- Consider other sources of funds to supplement worker's contributions
- Make NHIF contribution tax exempt
- Attract additional funds for special needs (e.g. indigents, chronic diseases etc.)

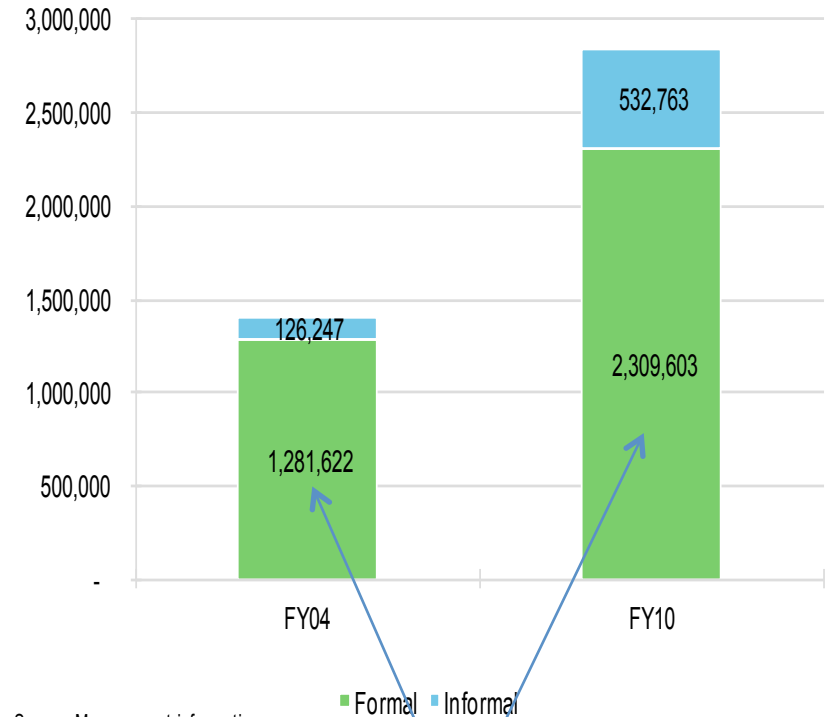
- Informal sector membership becoming more important to NHIF**

Contributions vs membership numbers for formal and informal sectors in FY10



Source: Management information

Formal vs informal sector between FY04 and FY10



Source: Management information

Ratio of informal to formal members increasing in the informal sector

NHIF's financial performance has shown a rise in contributions, payout ratio and continued decline in surpluses, which are all positive developments

Financial performance

Kshs000	Audited FY06	Audited FY07	Audited FY08	Audited FY09	Unaudited FY10	FY06-10 %CAGR
Contributions	3,458,848	3,954,940	4,546,199	5,079,570	5,738,489	13.5%
Other incomes	188,464	340,665	265,147	294,471	287,217	11.1%
	3,647,311	4,295,605	4,811,346	5,374,041	6,025,705	13.4%
Expenses						
Hospital & general claims	1,105,876	1,414,859	2,054,180	2,812,868	3,110,018	29.5%
Personnel expenses	978,758	1,096,045	1,353,897	1,447,376	1,656,305	14.1%
Other operating expenses	386,272	563,018	577,577	663,774	842,693	21.5%
	2,470,905	3,073,921	3,985,654	4,924,018	5,609,016	22.7%
Depreciation	161,678	243,445	254,895	263,436	229,653	9.2%
Total expenditure	2,632,583	3,317,366	4,240,549	5,187,454	5,838,669	22.0%
Surplus (Deficit) for year	1,014,728	978,239	570,797	186,588	187,036	(34.5)%
Withholding tax	(23,784)	(44,060)	(32,456)	(33,939)	(13,552)	(13.1)%
Net surplus after tax	990,944	934,179	538,342	152,648	173,484	(35.3)%

Source: Audited financial statements & management information

- The operating expenses/contributions ratios for Philippines and Taiwan are lower than NHIF. However, these two countries' contributions are several times those of NHIF

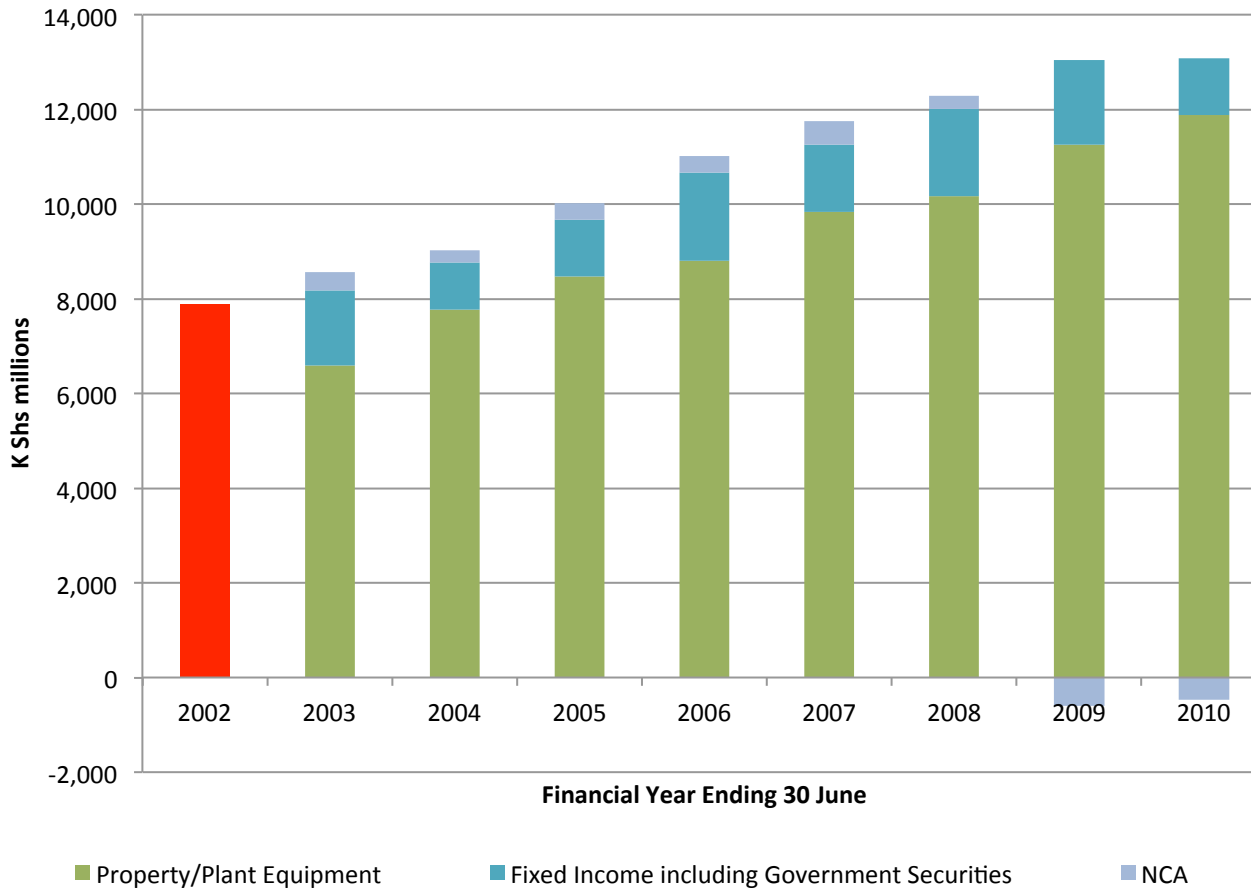
Expenses and payout ratio benchmarks

Country	Payout ratio	Expenses/ contributions ratio	Surplus/ (Deficit)	Contributions (US\$ 000)	Benefits (US\$ 000)
Kenya	54.2%	44.0%	1.8%	76,513	41,467
Philippines	71.0%	12.0%	17.0%	577,696	409,026
Taiwan	108.0%	1.6%	-9.6%	12,905,970	13,920,690

- Compared to Philippines and Taiwan, Kenya had a higher expense/contribution ratio. However, Philippines contributions are 7 times those of Kenya while Taiwan's are close to 169 times.
- In Taiwan, by law, the ceiling for personnel and administrative costs is limited to 3.5% of the total medical expenses. The budget comes from the Department of Health.
- The contribution basis is also different

NHIF Assets: Composition since 2003

Composition of NHIF's Assets for the Last 7 Years to 30 June 2010



- Year on year NHIF assets growing
- Rate of growth declining
- Majority of assets comprise non-income generating property assets – legacy issues
- Only small proportion of assets is income generating

(Note: 2002 figures – no breakdown available, hence shown in red)

Source: Audited Accounts for the financial years ending 30 June 2004 to 2010

- **94% of NHIF's reserves are held in fixed asset investments while in Philippines 97% of net assets are held in government bonds and bills**

Financial position benchmarks

US\$ 000	Fixed assets	Investments	Current assets	Cash	Current Liabilities	Contributions	Ratio of Reserves/ Contributions
Kenya	158,589	16,574	4,097	2,671	(13,680)	76,513	2.20
Philippines	17,875	1,744,636	70,778	197,036	(226,431)	577,696	3.12
Taiwan	222,762	137,810	4,474,500	340,162	(6,733,112)	12,905,970	(0.12)

Balance sheet items/net assets

Kenya	94%	10%	2%	2%	-8%
Philippines	1%	97%	4%	11%	-13%
Taiwan	14%	9%	287%	22%	432%

Source: Philhealth, Bureau of National Health Insurance, Taiwan and NHIF

Comparing NHIF's asset mix to Philippines, NHIF's net assets are more concentrated in fixed asset investments while in Philippines, the net assets are more concentrated in government bonds and bills.

Since 2008, total expenses (benefits + operating expenses) exceed member contributions*

Chart Shows Use Of Annual Contributions Receipts For Benefit and Operational Expenses

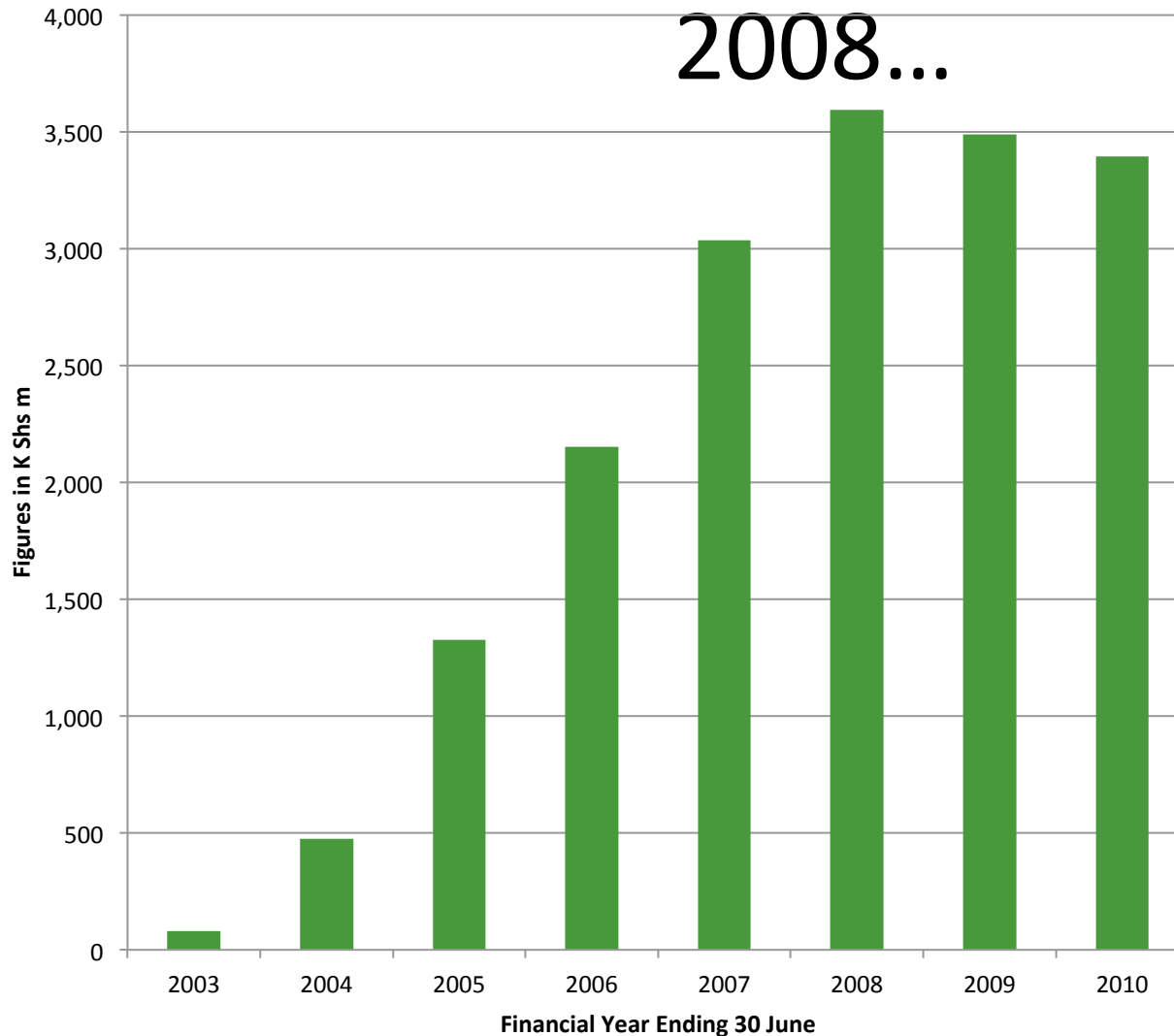


- Over last 2 years, net dealings with members is negative (i.e. more is paid out than received)
- For 4-years prior to that, net dealings with members was positive (i.e. less is paid out than received)
- May indicate greater utilization by members in recent years

*excludes investment income

Cumulative reserves declining since

2008...



- Overall cumulative reserves have grown 2003 to 2010
- However, since 2008 reserve levels declining
- Decline attributable to increased number and amount of claims

Strategies to expand coverage

- The Fund is looking at this from three perspectives:
 - Expanding population coverage
 - Expanding the benefit package
 - Financing system to reduce co-pay and out of pocket expenditure

Expanding Population coverage

- Enhance informal sector penetration through:
 - Enhance group enrolment through SACCOs, organised groups and cooperatives
 - Partnerships with the private sector Insurance brokers and agents to enhance recruitment
 - Partnering with Mobile Money transfer companies
 - Partnering with social franchising programmes already in the bottom of the pyramid
 - Leveraging technology

Expanding Population Coverage

- Expanding into the indigent population:
 - Pilot study on Health Insurance Subsidy Programme (HISP) underway to provide evidence on its impact on increasing health utilisation and reducing Household Expenditure on Health
 - Plans underway to seek support for scale up of the HISP

Other efforts....

- A studies is also underway on:
 - Designing a cost effective demand driven benefit package for the informal sector
 - How NHIF can contribute in Health Prevention and Promotion Strategies

Conclusion

- NHIF despite the recent challenges has developed systems to enhance insurance coverage especially through the expansion into the informal sector and the indigent population.

Thank You