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Sheltering the Poor against Catastrophic Healthcare Payments through Micro Insurance: Lessons from the African Experience

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In a nutshell

- *Access to healthcare without the threat of financial ruin is a basic human right. Using recently available nationally representative surveys from Egypt, we found that out-of-pocket spending on health (OOP) has exacerbated households' living severely in Egypt, pushing more than one-fifth of the population into a financial catastrophe and 3% into extreme poverty.*
- *Innovations and social entrepreneurship could improve social risk management and reduce poverty. This policy brief introduces micro insurance and encourages its embracement as a viable solution to protect the poor from health risks.*

Introduction

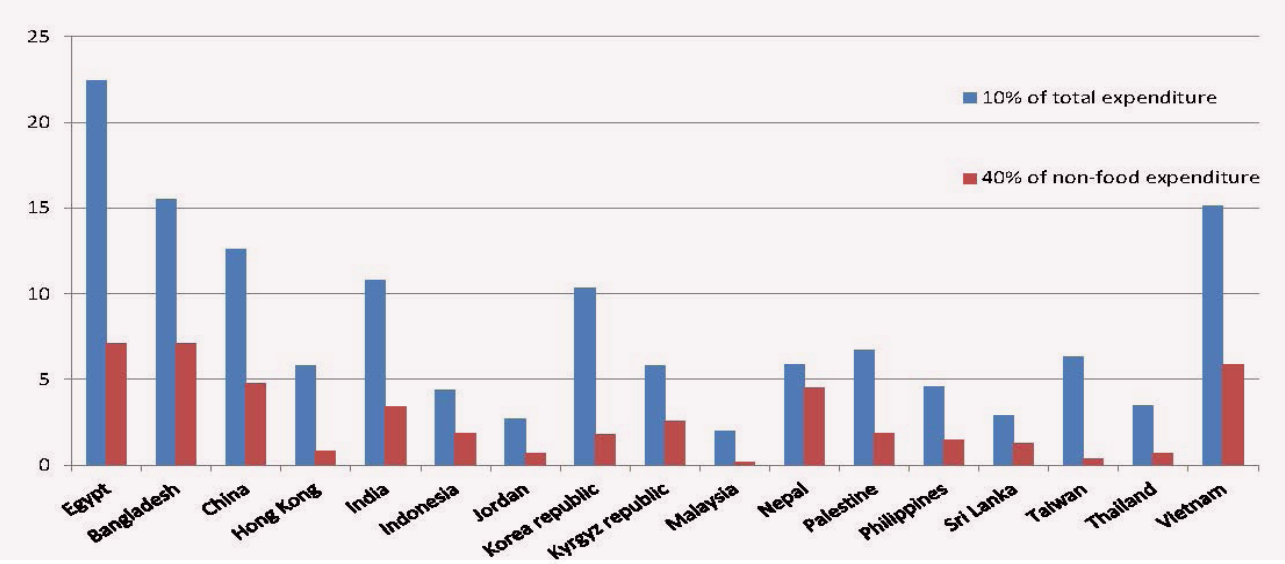
When people lack health insurance, poor health could have catastrophic economic consequences on a household financial status. Households lose income and in severe illness the capacity to generate income. Households at the base of the economic pyramid are the worst affected by health shocks and the least able to protect themselves against them. For example, in Egypt, a country where 27 percent of the population lives below the national poverty line, a woman described her life during the illness of the breadwinner as "we face a calamity when my husband falls ill. Our life comes to a halt until he recovers and goes back to work" (Narayan-Parker & Patel, 2000). Forgoing health care to avoid medical payments is also devastating, as it reduces households' long-run growth prospects. The objective of this policy brief is twofold. First, based on scholarly research it brings to the attention of policy makers in Egypt the severity of catastrophic health payments problem. Secondly, it introduces micro insurance to policy makers and social entrepreneurs in Egypt as a viable option to protect the poor from health risks.

Using data from the Egyptian Household Income, Expenditure and Income Survey, we found that compared to other low- and middle-income countries, Egypt has one of the highest incidences of catastrophic health payments (Rashad & Sharaf, 2015). Catastrophic health payments are defined as healthcare payments that exceed a pre-specified level usually exceeds 40% of non-food expenditure or 10% of total spending (O'Donnell & Wagstaff, 2008). Figure 1 displays the prevalence of catastrophic health payments in Egypt in comparison to some countries. We estimated that 3% of the population are living in extreme poverty, living on less than $2 a day, after paying for medical care (Rashad & Sharaf, 2015).

In 1964, the Egyptian Health Insurance Organization (HIO) was established to provide an affordable package of health services. Despite the introduction of health insurance for more than 52 years now, the HIO statistics indicate that the percentage of subscribers in the health insurance does not exceed 58 percent leaving about half of the population (about 37 million people) living under the constant threat of sudden drop in income in case a family member becomes sick. The distribution of insurance coverage across population groups is also worrisome. As is the case in banks who only lend to those who do not need it, Nakhimovsky et al. (2011) showed that the insurance coverage is concentrated among households at the richest income quintile. The Central Agency for Public Mobilization and Statistic's (CAPMAS) data, the official source of data in Egypt, reveal that coverage levels were noticeably lower in the poorest governorates than in urban governorates such as Cairo and Alexandria. The conventional insurance providers have the incentive to avoid the poor and informal sector workers, which made up much of the population in Egypt and look for the better off.

Despite the fact, they are the most in need of health insurance. As it is the case in most developing countries, Egypt needs new insurance providers with different incentives. It needs insurance providers looking to integrating the poor and informal workers into their umbrella instead of dodging from them. We simply need an insurer to the poor. In the banking sector, the Nobel laureate economist Muhammad Yunus was able to innovate and established a new

Figure 1: Incidence of Catastrophic Health Payments across Countries



Source: Authors' compilation based on the data from Van Doorslaer et al. (2007).

bank with different incentives capable of serving the poor, and there is a clear gap in the Egyptian market for new health insurance companies that view the poor as a business opportunity.

Technological innovations in recent years begun to address insuring the poor against health risks, which makes achieving adequate protection of low-income households likely. For example, Kenya and Ghana have insured low-income groups against health risks by offering micro insurance- simple insurance products with low benefits and affordable premiums. The experience of these shows that micro insurance could be a promising solution to save the poor in Egypt from catastrophic medical expenses in the short run. The idea for micro insurance was introduced in 2002 within the microfinance institutions. To insure the poor, the micro insurance stands on two pillars: technology and partnership with partners that already have extensive distribution networks to develop a large enough risk pool of poor households that cut the cost of insuring the poor with tiny premiums.

Micro insurance firms rely on technology to minimize administrative cost. For example, the poor can use their mobile phones to deliver insurance without the need for employing sales agents. Mobile network operators are ideal partners. Firstly, they have very large number of subscribers and distribution networks even in the developing countries. For instance, according to CAPMAS, 95.5 million persons use cell phones in Egypt in the year 2016. Therefore, mobile operators can increase their access to millions of customers even those in remote regions at low cost. Additionally, the use of mobile phone services to pay bills, transfer funds, and pay subscriptions is increasingly growing in developing countries. Network operators can support micro insurance firms in cash transaction and payments when needed. Partnership with micro insurance firms can also add value to mobile operators as well, as it provides them with a competitive advantage over rivals, bundles airtime use with insurance and can boost loyalty among their subscribers.

In collaboration with mobile operators, Entrepreneurs in Kenya launched micro-insurance product that provides a certain amount of health insurance at no cost to certain mobile operator subscribers. The amount of monthly insurance depends on the total airtime usage each month. It increases as airtime increases. The amount of insurance is communicated through text message each month. In Kenya, purchasing airtime for $2.50 a month would allow customers to use health services up to $10. Such a small amount can be lifesaving in many places. In return for setting an incentive to use a certain mobile operator and increase airtime, the mobile operators pay the customers' premium to the micro insurance to enable them to provide basic insurance coverage. In cooperation with banks, one firm develops a product that encourages the poor and near poor to open a savings account and also receive a certain amount of life insurance depending on the balance of their saving accounts. Banks pay fees to cover the insurance premium of their customers.

This policy brief is directed to the Government of Egypt as well as social entrepreneurs in Egypt. It encourages the Government to promote institutional innovation such as micro insurance to improve social risk management and reduce poverty. It encourages the entrepreneurs in Egypt to adopt micro insurance to insure the poor in the short run. Although Micro insurance is not a panacea, it can help overcoming some of the challenges facing the conventional insurance and reduce health risk that is an important cause of poverty.

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