Global analysis of health insurance in Sub-Saharan Africa

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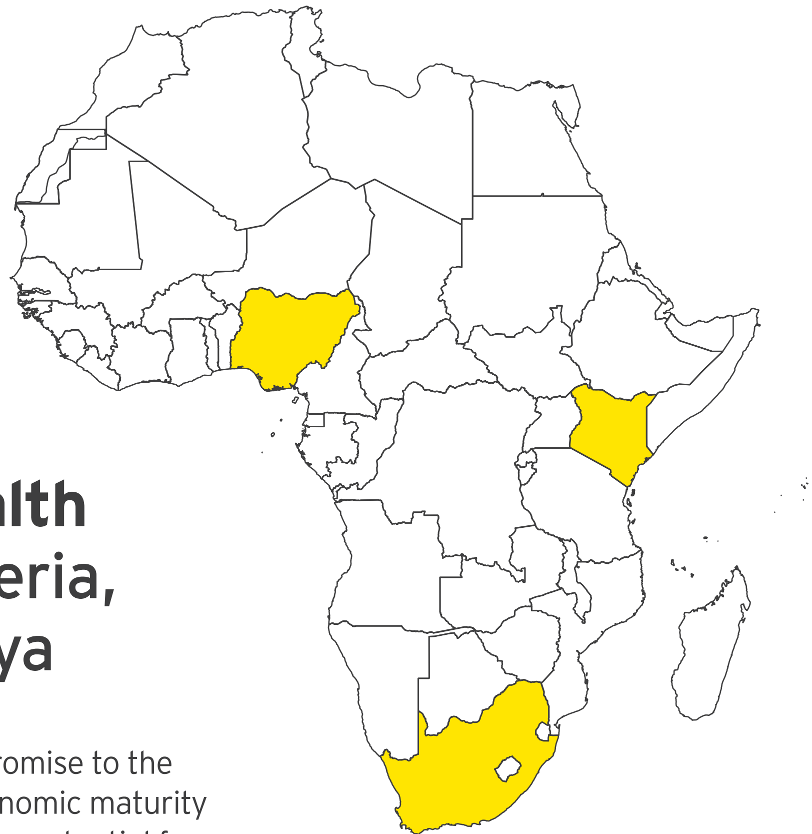


The prospects for **health care insurance** in Nigeria, South Africa and Kenya

Sub-Saharan Africa has long offered great promise to the health insurance industry, as its growing economic maturity and favorable demographics seem to offer the potential for sustainable growth over the medium term.

Recent developments have added challenges, however. A deteriorating macroeconomic climate, exacerbated by a sharp downturn in commodity prices, as well as significant governance issues in many of the region's key economies, has cooled optimism in the short term. In some markets, however, the use of mobile applications that encourage microinsurance plans could boost the prospects for private health insurance carriers.

This review summarizes the outlook for Nigeria, South Africa and Kenya, with Kenya offering the most dynamic opportunities. While South Africa is by far the most developed health insurance market on the subcontinent, political rancor and weakness in the mining sector limit near-term prospects, as do efforts to impose new regulations on the health sector. Nigeria has been hard hit by the collapse in oil prices and devastating currency volatility, as well as governance challenges. Kenya, however, like the rest of East Africa, is not dependent on oil or metals exports, so its consumers have benefited from cheaper oil and commodity prices. Moreover, a booming service sector in Nairobi is eager to employ mobile phone applications and technology to unlock opportunities in previously underserved populations.

Health insurance in Nigeria

With rising levels of disposable income in some segments of Nigerian society, demands for private health coverage have increased. But macroeconomic instability, as well as uncertain government policies, has added to the challenges for those seeking to develop more robust private treatment centers or insurance options. Moreover, many wealthy Nigerians choose to leave the country for medical care: it is estimated that Nigerians spend more than US$1.6b abroad on medical tourism each year. Thus, microinsurance programs for middle-class residents seem to be gaining the most traction.

Few economies have endured as much volatility over the past few years as Nigeria. Considered Africa's single largest economy by the World Bank just two years ago, the country has been buffeted by political and social unrest, a sharp plunge in oil prices, and two major currency devaluations.

Today, almost half of Nigeria lives below the poverty line, and the public health system is consistently underfunded. Although the government is committed to providing universal health care, the reality on the ground is different, and the discrepancies between public and private facilities is palpable. Rural areas are particularly underserved.

Nigeria's health care system is piecemeal and ineffective. In Abuja, the government launched the National Health Insurance Scheme (NHIS) in 1999, but the program only kicked off in earnest in May 2005 and still has not substantially increased the number of Nigerians with medical insurance. As of December 2016, only 4% of the population had subscribed to the NHIS, mostly federal government workers. Because NHIS participation is not mandatory, many state and local governments have refused to adopt the plans, which has resulted in low participation.

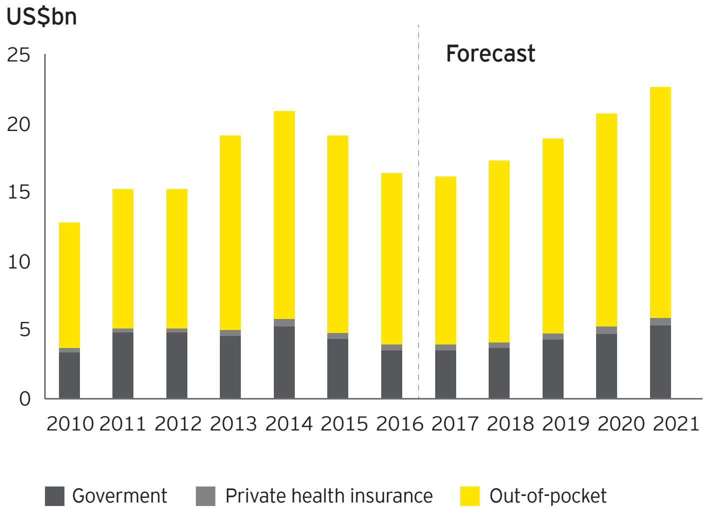
Nigeria's outlook

As a result, the penetration of private health insurance remains very low, and 95% of spending comes from out-of-pocket contributions. However, slower growth, rising unemployment and a sharp increase in inflation have weighed on household disposable incomes, making affordability a key impediment to expansion of the health insurance market. Moreover, many Nigerians live too far away from hospitals to consider insurance. Nevertheless, Oxford Economics projects that spending on private health insurance will grow to US$530m in 2021, from US$400m in 2016, a 6% CAGR.

Source: Oxford Economics/Haver Analytics

Nigerian health care spending

Figure 1: Nigeria — composition of total health spending

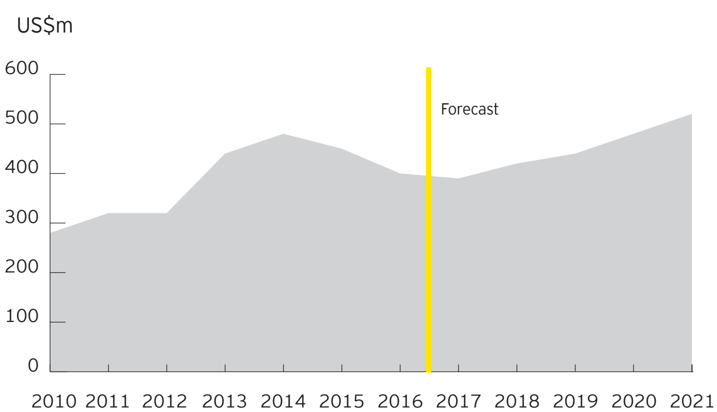


Oxford Economics bases its forecasts on the assumption that the naira continues to depreciate against the US dollar, but at a less dramatic pace, and that government and consumer spending falls further in 2017, before gradually recovering in 2019. However, even these sober forecasts could be jeopardized by additional political instability or further weakness in oil prices.

Total spending on health care in dollar terms is expected to stabilize in 2017 and rebound in 2018, with the government's share of total health spending increasing modestly to 24% from 21% in 2016. However, overall government spending on health care as a percentage of the budget is low: just 4.2% of the 2017 national budget is devoted to health-related spending. Still, the government has identified improved access to health care as a priority under the recently released Economic Recovery and Growth Plan (ERGP) 2017–2020. This strategy aims to improve the availability, accessibility, affordability and quality of health services; expand health care coverage to all local governments; provide sustainable financing for the health care sector; and reduce infant and maternal mortality rates.

Private health care insurance premiums will rise

Figure 2



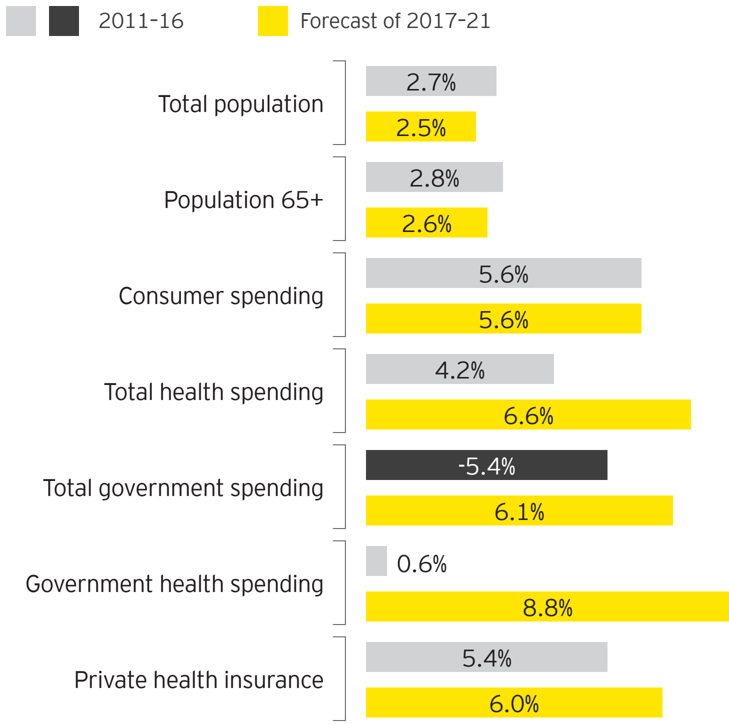
Rather than simply targeting the wealthier segments of the Nigerian market, some innovative private insurers have developed plans tailored to lower-income individuals and families that take advantage of the high use of mobile phones in the country. It is estimated that more than 130m Nigerians use cell phones.

As one example, the country's largest mobile carrier, MTN, launched a service titled "Y'ello Health Cover" in 2014, where, for a prepaid weekly fee of N100, subscribers can visit one of 6,000 NHIS-registered health management organizations and receive up to N350,000 in coverage, or about US$1,100.

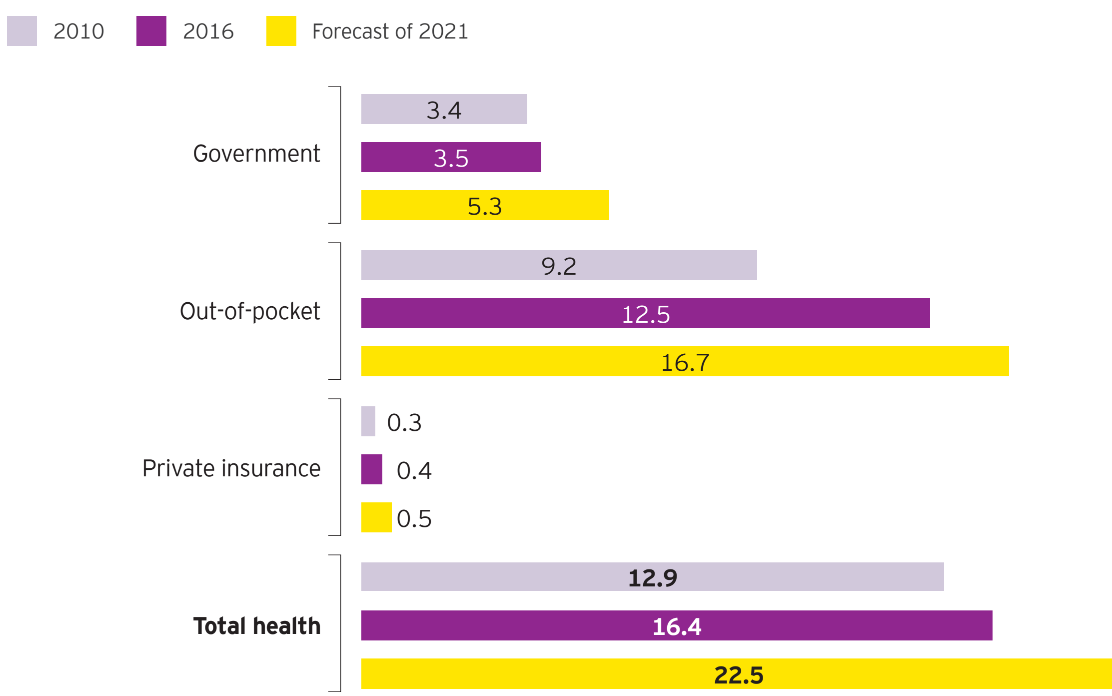
Source: Oxford Economics/Haver Analytics

A snapshot of Nigeria

Growth rates, per annum



Total spending, US$b



Source: Oxford Economics/Haver Analytics

Health insurance in South Africa

In a nation still grappling with the legacy of apartheid, unequal access to health care remains a serious challenge. Private health care plans, while significant and popular among the affluent, cover only about 16% of South Africa's population, even though the country enjoys the continent's most mature financial infrastructure, and its citizens dedicate 42% of total health expenditures to voluntary private health insurance, more than citizens of any other nation, according to WHO statistics.

The need for innovation in health coverage, however, effectively has been stifled by regulation as the government attempts to roll out a single National Health Insurance (NHI) system that will provide free health care to all South Africans. Most medical plans in the country are of the "not-for-profit" variety, which limits their incentive for developing new business models. Meanwhile, wellness plans designed to encourage healthier living are gaining new users.

One especially bright spot in the South African insurance market is the rise of health plans aimed at incentivizing behavioral changes among those they cover. Vitality, a program started by Discovery, a domestic financial services firm, offers rewards and discounts, personalized technologies, including wearables and smartwatches, and data analytics to encourage changes in the eating and exercise habits of its customers. By encouraging wellness, the program generates lower morbidity and mortality rates, and the overall cost of claims declines. Over time, a portion of this actuarial surplus is channeled back to members in the form of rewards. However, members are sometimes surprised to learn that as they confront illness, they sometimes find their declining health makes it more difficult for them to accrue the same rewards as when they were healthy, leading to a rapid downward spiral in benefits and rising prices for coverage.

Independent research has demonstrated that Vitality members generate up to 30% lower hospitalization costs and live 13 to 21 years longer than the rest of the population (up to 41 years longer than comparable uninsured populations).

For those who cannot afford such policies, however, more attention is being focused on NHI, which is set to be phased in over a 14-year period. Implementation started in 2012. The government has major ambitions for the plan, aiming to "realize universal health coverage for all South Africans, free of charge at the point of use … closest to where people live or work." It is envisioned as a single-payer system, funded primarily by taxes.

Private sector health providers and insurers worry, however, that the NHI plan will turn doctors into government workers and trigger a "brain drain" of top professionals. Even a liberal think tank, the Helen Suzman Foundation, expressed concern that the number of private health options will become limited once NHI is fully implemented.

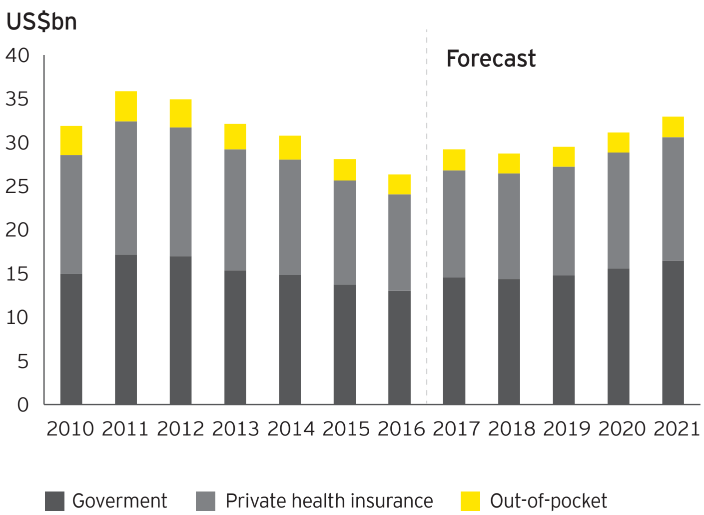
South Africa's outlook

Vitality is continuing to grow and has now captured 40% of South Africa's private market for health plans and recently expanded its behavioral incentives to car and life insurance clients. For those who cannot afford insurance, the National Health Insurance (NHI) system will provide free health care to all South Africans within the next 14 years. Rollout of the NHI initiative has been slow, partly by design and partly because of a severe economic downturn. Lastly, South Africa's economy has also experienced substantial instability, the result of slumping commodity prices, labor unrest and political uncertainty. Pressure on the rand has also reduced overall spending, even if rand-based spending has continued to rise.

Source: Oxford Economics/Haver Analytics

South Africa health care spending

Figure 1: South Africa — composition of total health spending

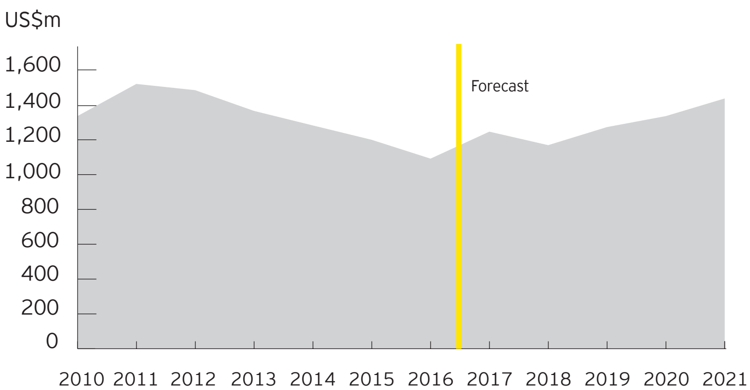


Looking ahead, Oxford Economics expects a partial recovery in the rand in 2017, before renewed gradual depreciation from 2018 onward. Government spending in the local currency is forecast to rise by 7% to 8% per annum from 2017 to 2021, with broadly similar growth in locally denominated consumer spending. These two elements should support an expected rebound in health care spending in the next five years.

Medical plans accounted for 75% of total private health spending in 2000 and rose to 84% in 2016. Their forecast assumes this continues to edge up, reaching 87% by 2021. On this basis, Oxford Economics projects total private health insurance premiums of US$14b by 2021, from US$11b in 2016, a CAGR of 5%.

Health insurance premium forecast for South Africa

Figure 2

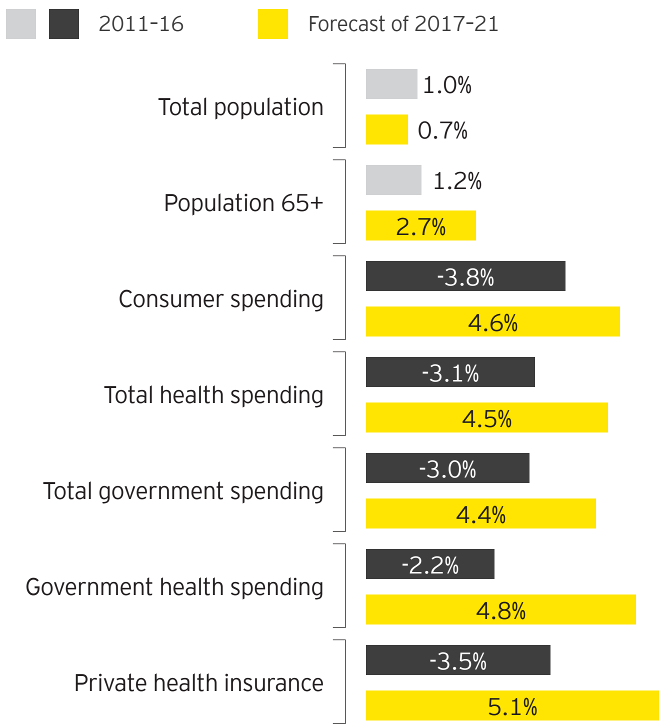


Recent news stories suggest that the next phase of NHI rollout will not pose an immediate threat to the public medical plan sector. The Treasury has budgeted an 8.3% average annual increase in health spending, and it appears that more rapid implementation of NHI is not likely. In the meantime, private health plans continue to expand, although the rate of expansion has slowed, apparently as insurers come up against the limits of demand for their relatively expensive service.

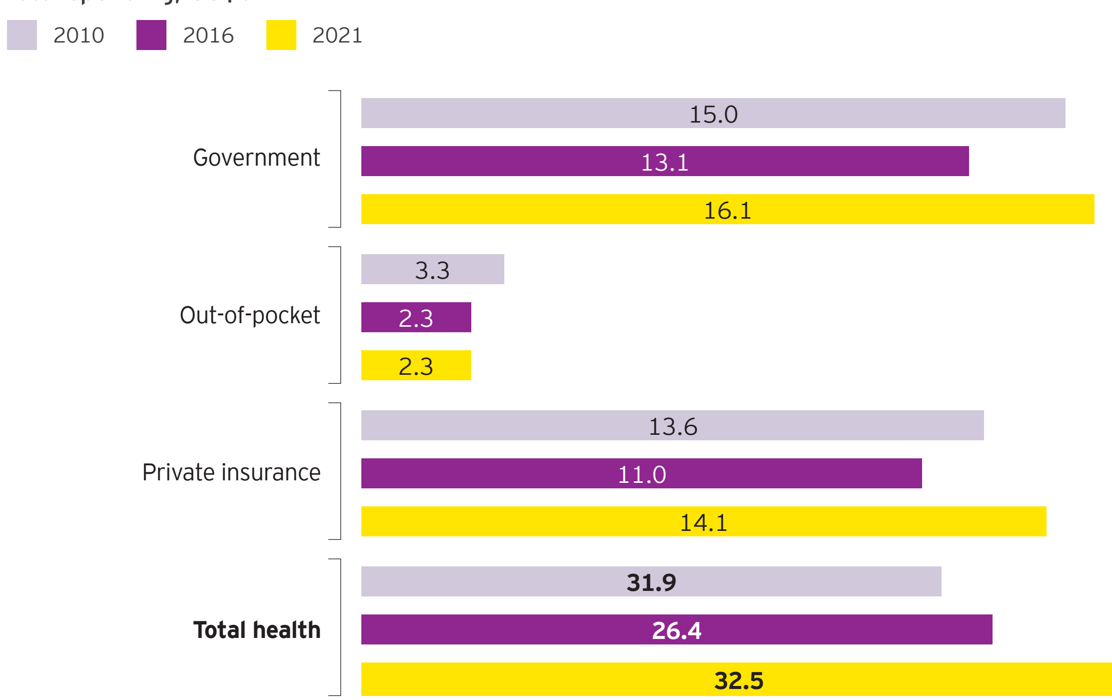
Source: Oxford Economics/Haver Analytics

A snapshot of South Africa

Growth rates, per annum



Total spending, US$b



Source: Oxford Economics/Haver Analytics

Health insurance in Kenya

Since nearly half of all health care spending is paid out of pocket, Safaricom mobile phone service has joined hands with CarePay and PharmAccess to develop a mobile wallet called M-TIBA, which allows users to send, save and receive funds to access health care services using their mobile phones. To encourage customers to sign up, the Pfizer Foundation is paying users a KSh50 bonus per month when they deposit KSh100 or more in their accounts. While M-TIBA is not an insurance program, it does illustrate the opportunity for insurers to use the growth of mobile phones to develop new distribution and business models to engage with customers.

Health insurance is offered by the National Hospital Insurance Fund (NHIF) and private insurance companies, as well as by community-based and microfinance insurance organizations. The NHIF is a state-owned social health insurance fund established in 1966 that was mandated to provide accessible, affordable, sustainable and quality social health insurance to the Kenyan population. The World Bank estimates that the NHIF covered 18% of the population in 2015, while private, microfinance and community-based health insurance providers covered just 2%.

Kenya's outlook

Health spending in Kenya, from both government and private sources, increased rapidly from 2010 to 2014. Private health insurance spending rose from less than US$100m in 2010 to just short of US$300m by 2014, as the nation's service and technology sectors gained momentum, while the key agricultural sector also enjoyed sustained growth.

The rise of the mobile economy in East Africa is also making Kenya a test bed for new distribution plans, including for health insurance.

Source: Oxford Economics/Haver Analytics

Kenya composition of health spending

The health care sector plays a prominent role in the government's development strategy, and recent data suggests the number of Kenyans with access to outpatient medical care through the NHIF grew to 5.8m in 2017, from 3.8m in 2013. A doctor's strike that began in December 2016, however, illustrated the ongoing conflict the establishment of the NHIF created. Recent budget statements indicate that government spending in health care will decline by nearly 10% in 2017. These cuts will primarily affect health care development spending, with recurrent spending remaining largely unchanged.

Compared with other parts of Africa, Kenya's economy has held up well. Oxford Economics estimates that real GDP growth was 5.9% for 2016 and will rise to 6.4% in 2017, despite a severe drought that damaged the agriculture sector. Foreign currency reserves remain adequate, external debt is rising but remains sustainable, and Kenya continues to attract healthy levels of foreign investor interest. Indeed, consumer spending in US dollar terms rose by an annual average of 10% between 2011 and 2016, though a modest slowdown is expected. Oxford Economics projects US dollar-denominated consumer spending growth of 8% and government spending to grow 6% per year on average to 2021.

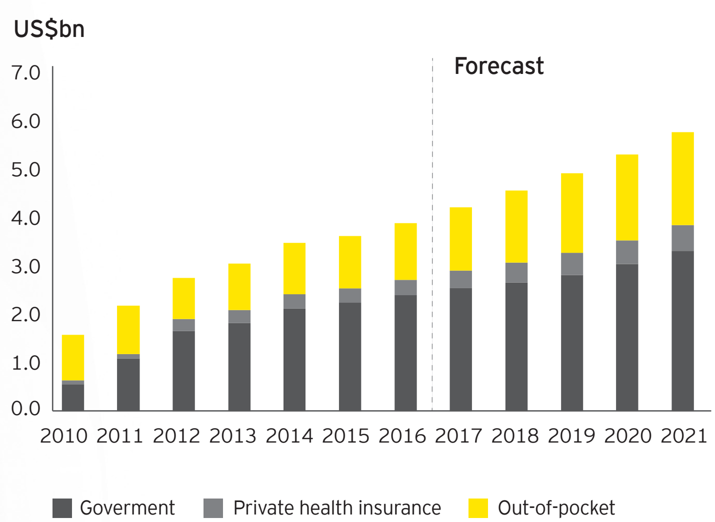
Kenya also continues to experience rapid population growth, at around 2.5% annually. As in other sub-Saharan economies, the population is set to remain relatively young, with just 3% over 65. However, given the rapid rate of population growth and significant reductions in mortality rates, which fell by some 50% after 2000, an additional 300,000 people over the age of 65 will be added between 2016 and 2021.

While the NHIF is the primary vehicle through which the Kenyan Government pursues its goal of providing health care to all, implementation has been eroded by charges of corruption, mismanagement, inadequate capacity and weak governance.

Some 29 medical insurance providers currently operate in Kenya, reflecting a significant increase from the 22 companies in existence in 2015. In general, the medical insurance sector has struggled in the past five years, recording annual underwriting losses, though investment income usually more than offsets these underwriting losses.

US dollar-denominated spending was broadly stagnant in 2015 to 2016, thanks to a major depreciation of the Kenyan schilling against the US dollar. Looking ahead, though, US dollar-denominated spending will benefit from greater exchange rate stability, as well as a pickup in spending in local currency terms.

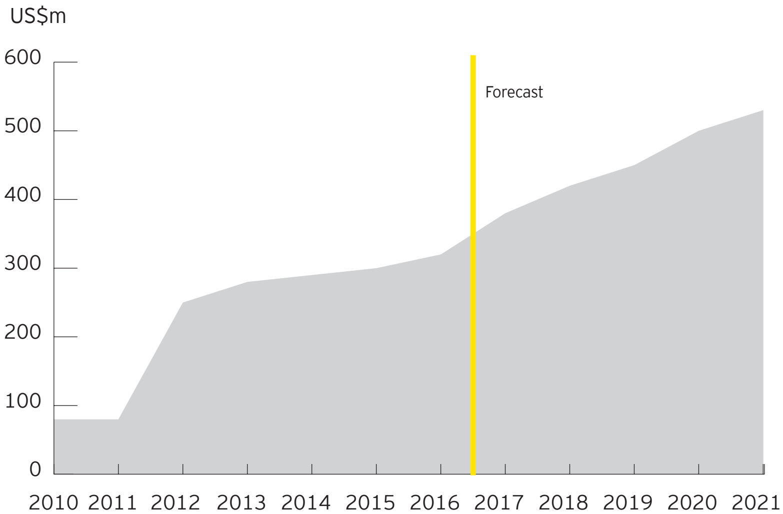
Figure 1: Kenya — composition of total health spending



Source: Oxford Economics/Haver Analytics

Health insurance premiums in Kenya

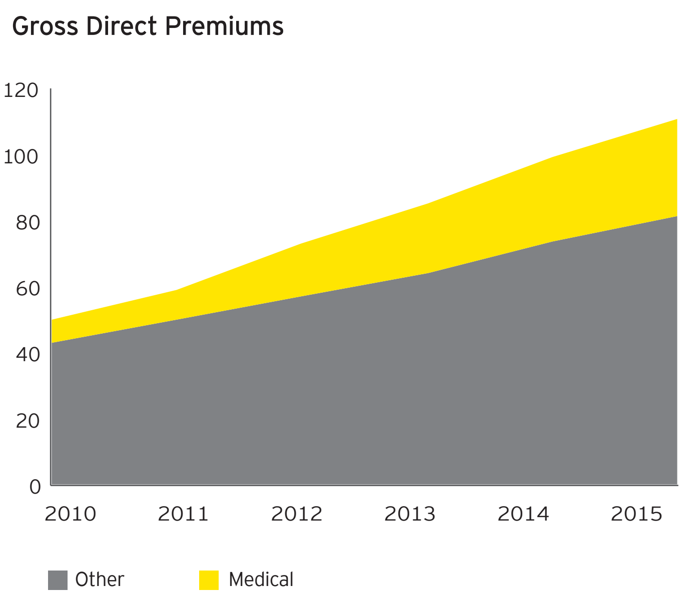
Figure 2



Oxford Economics expects government spending to continue to be a key driver of health expenditure, growing from US$2.4bn to US$3.3b between 2016 and 2021, but private health insurance should also see robust growth. It should amount to US$530m in 2021, up from US$320m in 2016. Private health insurance should account for an increasing share of health spending over the forecast period, topping 9% by 2021 (up from 8% in 2016). This will amount to a CAGR of over 10%.

Medical insurance premiums

Figure 3

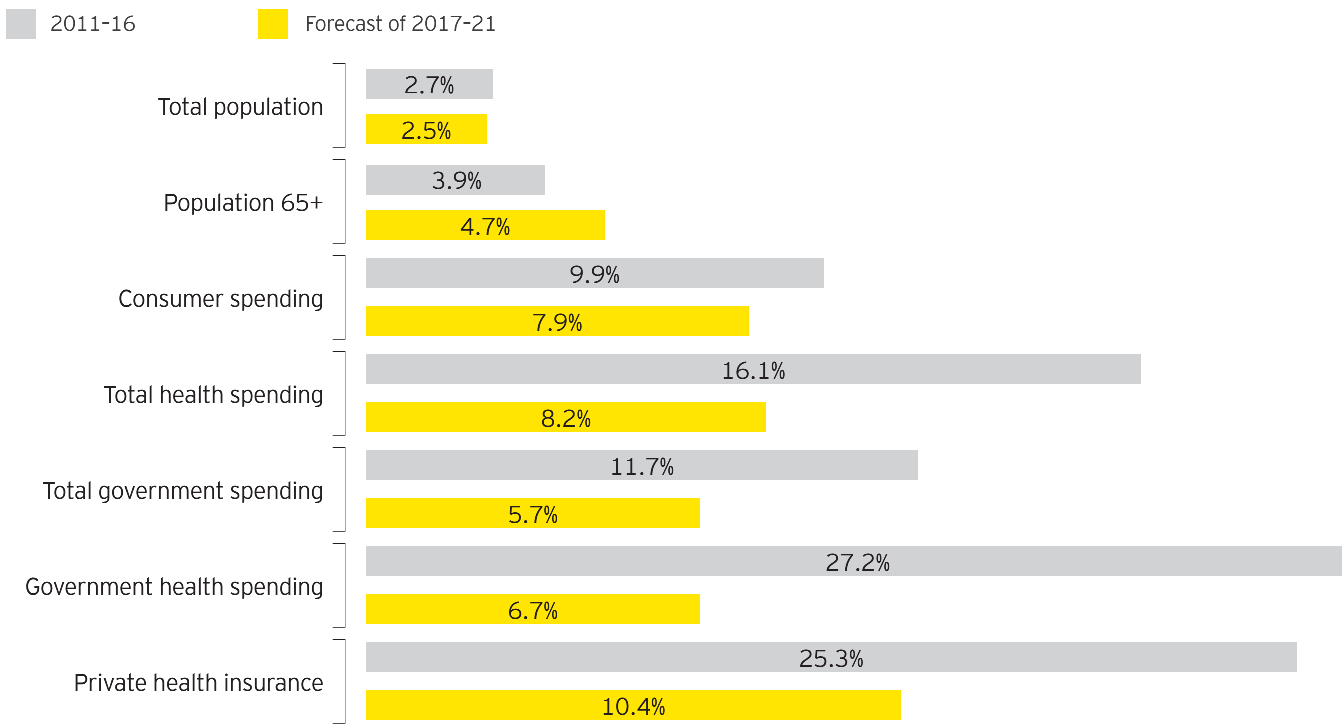


The most recent figures published by the Insurance Regulatory Authority (IRA) show that total underwriting profit in the medical insurance sector amounted to KSh90.4m in 2016, while the overall insurance sector recorded a KSh390.8m loss during the year. The underwriting profile was not large, but represented a significant improvement from the KSh118m loss recorded a year earlier. Medical claims incurred during 2016 amounted to KSh17.6b, reflecting a 17.1% increase.

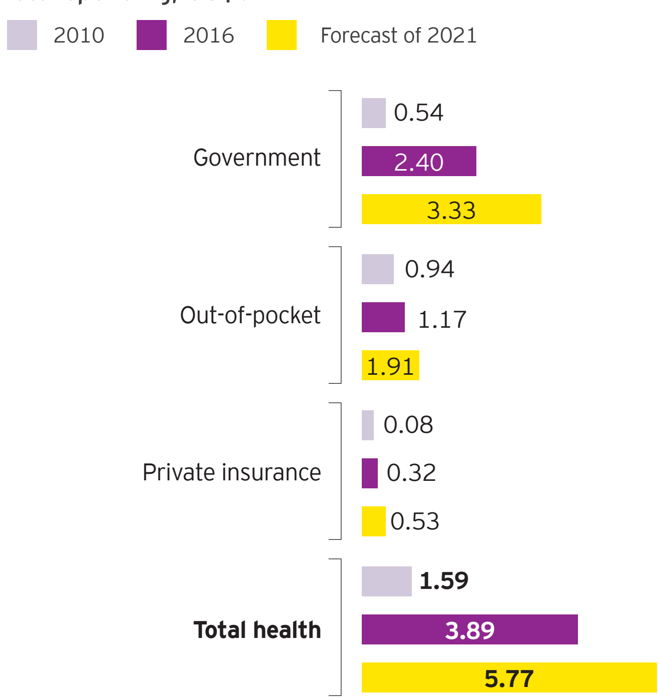
Source: Oxford Economics/Haver Analytics

A snapshot of Kenya

Growth rates, per annum



Total spending, US$b



Conclusion

While South Africa remains the largest and most developed market for health care insurance in Africa, the most exciting commercial developments may be taking place in Kenya, and the rest of East Africa, where purchasing power is growing, and a booming services sector, fueled by technology, is finding innovative ways to provide services to underserved populations.

In Nigeria and West Africa more generally, high poverty rates and infrastructure issues will tend to complicate efforts to grow private health care insurance, while cash-strapped governments will be unable to realize their objectives of state-provided health care. Health outcomes for the general population will suffer as a result.

South Africa will continue its effort to roll out universal health care, but it is expected that high levels of private coverage will continue. This model has proven unable to serve poorer members of South African society, however, so further turmoil can be expected.

The economic and political environment in Kenya offers the most promise. Economic growth should exceed 5% in 2017, and an increase in both infrastructure and information technology investments offer opportunities for both traditional and innovative health insurers to capture a larger piece of an expanding middle class.

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