GLOBAL JOURNAL OF MEDICINE AND PUBLIC HEALTH

A health financing reform solution for Kenya: Expansion of National Hospital Insurance Fund (NHIF)

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ABSTRACT

Kenya is a low income country out of which 46.6% of the population currently lives in poverty.[7] The Kenyan government since its independence has been designing its health policies with a long term goal of providing an accessible, affordable and efficient health care system to every individual in the population.[1] The Kenyan health financing system is highly fragmented and regressive, promoting inequity with poor subsidizing for the rich.[2] Major financial contributions constituting 51% of the total health expenses are borne by the people through out of pocket and user fees practices that has negatively impacted the health system.[7] The National Hospital Insurance fund (NHIF) is a mandatory insurance scheme for formal employees and voluntary for informal sector.[2] NHIF is the largest risk pooling system in the country, yet only 18% of the total population are covered under the insurance scheme.[2,8] The insurance covers urban population, while the poor and disadvantaged are not covered,[9] resulting in appalling health expenses posing an enormous threat on their financial security. A reform solution is required to extend coverage to the poor and vulnerable population by ensuring "risk pooling and income cross-subsidization from the healthy and rich to the ill and poor".[2] The following paper addresses the implications, advantages and disadvantages of expanding the National Hospital Insurance Fund as a mechanism for financing the poor and disadvantaged populations of Kenya.

GJMEDPH 2016; Vol. 5, issue 4

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Conflict of Interest—none

Funding—none

INTRODUCTION

The Kenyan health financing system is highly fragmented and regressive, promoting inequity with poor subsidizing for the rich.[2] Major financial contributions constituting 51% of the total health expenses are borne by the people through out of pocket and user fees practices that has negatively impacted the health system.[7] The National Hospital Insurance fund (NHIF) is a mandatory insurance scheme for formal employees and voluntary for informal sector.[2] NHIF is the largest risk pooling system in the country, yet as indicated below (See Table 1), only 18% of the total population are covered under the insurance scheme.[2,8]

The insurance covers urban population, while the poor and disadvantaged comprising around 46.6% of the population[9] are not covered, resulting in appalling health expenses posing an enormous threat on their financial security. Community Based Insurance schemes exist for rural population, yet are too small to cover 75-80% rural population.[2,9]

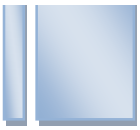


Table 1 NIHF Fact Sheet: 30 June 2010 [8]

Number of members	Total: 2.8 million (Formal sector: 2.3 million, Informal sector: 0.5 million)
Number of members + dependants	6.6 million
Total contributions received (KSh.) in FY 2010	KSh. 5.7 billion
Total benefits paid out in FY 2010	KSh. 3.1 billion
Number of branches	31
Number of window/satellite offices	44
Number of employees	1,629
Number of providers in NHIF network	645 hospitals (98% of Kenya hospitals)
Number of claims in FY 2010	303,000
Amount of average claims (KSh.)	10,028

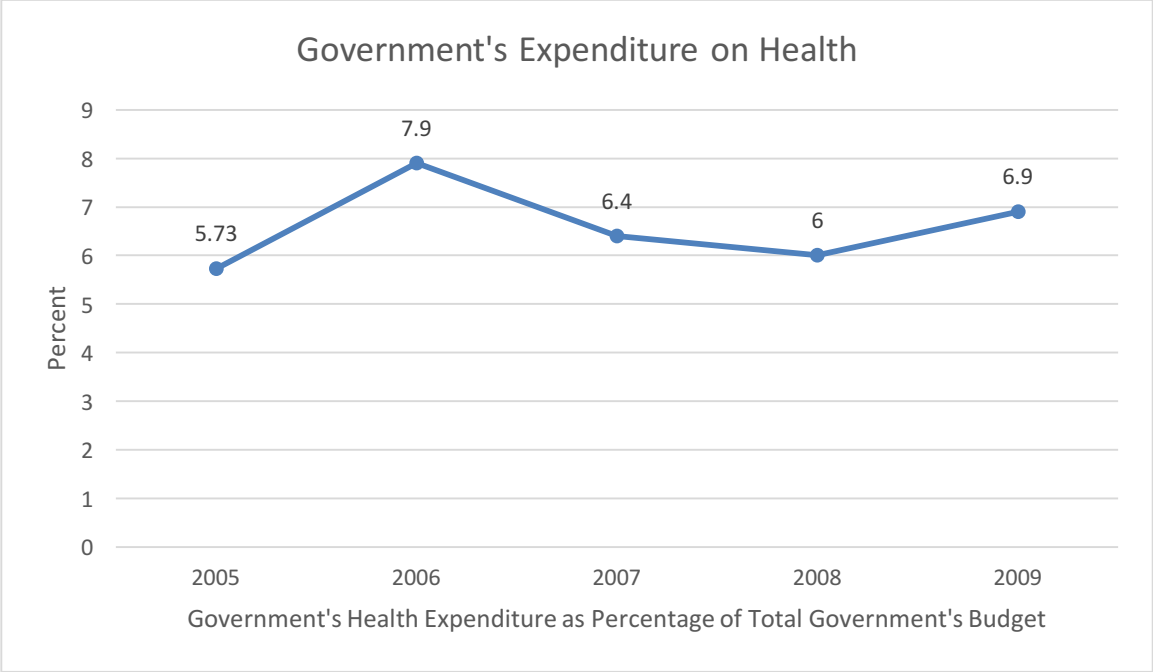


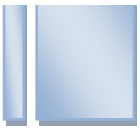
Fig 1 Government Health Expenditure as a proportion of Governmen's Budget [2]

With the government increasing its expenditure on health (See Figure 1), a reform solution is required to extend coverage to the poor and vulnerable population by ensuring "risk pooling and income cross-subsidization from the healthy and rich to the ill and poor".[2]

REFORM SOLUTION: EXPANSION OF NATIONAL HOSPITAL INSURANCE FUND (NHIF)

A reform solution to address the issue of insurance coverage for the poor and disadvantaged groups is to expand the current existing National Hospital Insurance Fund (NHIF) to protect such populations from appalling health expenses by risk pooling and cross subsidization. A "systematic" approach[2] should be adopted in defining a single payer funding mechanism that pools funds from various sources into a central based system that would function for the sole purpose of providing financial assistance in health care.

The common central fund of NHIF, will allocate finance to provinces using a need-based approach according to health needs, facilities and centres in each province. Services and benefits under NHIF will be accessible and paid by the fund to every insured Kenyan citizen who seek treatment at NHIF enrolled



public and primary health institutions. Thus, "pooled funds can provide financial protection to those outside the formal sector".[2] The reform will include-

1) Increasing mandatory contributions via monthly premiums from formal sector members according to their level of income ensuring increased aid from those capable of paying.[2]
2) Encouraging below poverty line (annual income less than $1.25) population to pay a minimum annual registration fee in accordance with their income structure entailing them to services offered by NHIF.
3) Pooling funds from tax revenues, donor funds, contributions to the NHIF by formal and informal sector, Community based Insurance schemes, private insurance by companies and other microfinance institutions into a single NHIF fund that is run by the government centrally.[2]
4) Providing bank accounts and insurance cards for everyone protected within NHIF to access the services at health facilities without any co-payment[2], such that the cost of services is subsequently reimbursed by the provincial government in their respective bank accounts.
5) Regulatory body to monitor and control flow of funds from central to provincial governments.
6) Reimbursement of medical claims from multiple NHIF branches across the country by the consumers.[2]
7) A need based resource allocation to health facilities by "estimating equity targets for each hospital and geographical location".[2]
8) Effective channelling of funds to administrative sections of the NHIF without compromising on the funds allocated for the benefit packages.[2,5]
9) Inclusion of primary and preventive services in the existing benefit package in hospitals and health centres and ensuring effective outpatient care (see Table 2).[3]
10) Improving the quality of services provided by NHIF.
11) "Timely and transparent financial reporting" of the manner in which the funds are spent on providing benefits to the public, at the official website and in the form of documents kept at every branch of NHIF.[5]

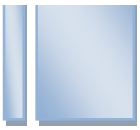
Table 2 Existing Services and Benefits Offered by NHIF [3,6]

Services	Benefits
Consultation	Medical consultation with doctor, clinical officer and nurse
Laboratory Investigations	Specialist care (inpatient)
Drugs administration and dispensing	Ambulatory care (outpatient)
Dental services	Hospitalization
Radiographic Examinations	Dental care
Nursing and Midwifery services	Referral
Surgical	Drugs and Essential medicines
Radiotherapy	Comprehensive maternal, reproductive and family planning
Physiotherapy	Treatment for all diseases

EFFECT ON ACTORS, FUNCTIONS AND OUTCOMES

Actors

Actors affected are the government, donors, formal sector employees, recipients, private insurance companies and health personnel.[8] To ensure success of NHIF, the main responsibility is on the government to effectively pool resources from various mechanisms, ensuring management and allocation of funds to the needy. Major revenue source for the risk pool are from tax payers and formal sector employees via their salary premiums.[8] Hence, they are both payers and recipients to the policy. Below poverty line population will benefit the most from risk pooling and cross subsidization by accessing affordable services. Since funds are pooled from private insurance companies too, their profit will be affected, thus offering resistance to the reform.[2] Health personnel cannot acquire informal payments



from those insured due to the absence of co-payment.

Functions

Majority of Kenyans are poor and in the informal sector, relying on government funding. Mandatory premiums from the formal sector alone cannot sustain financing of NHIF.[2] Thus, for the expansion of NHIF, the government should increase its share to the health budget by reducing its expenditure on other sectors by negotiating, such that budget cutting of other sectors does not adversely affect the health outcomes of the population.[2] As the government relies heavily on donor funds for its development, an increase in the government's share to the budget and an effective integrated approach to secure donor investments can be undertaken, "should donor funds be significantly reduced or suspended".[2] According to the health and disease trends in the country, a fair share of revenue can be fixed annually from the budget for health.[2] High taxes on tobacco and alcohol, not only improves the budget but also protects the population's health status. Accountability and transparency is required from the government to ensure that the community who are paying for their insurance is notified about the manner in which resources are allocated.[5]

Contributions from formal employees being a major source to NHIF, the government will need to monitor to ensure that they mandatory pay for the insurance.[8] Monitoring of informal sector to prevent absenteeism from enrolment into the fund is also required.[8]

Partnerships can be increased with organizations working for orphans, aged, disabled, and poor and destitute families to ensure coverage of such disadvantaged and vulnerable population.[6]

Community participation is essential for the success of the insurance scheme in its goal of providing equitable and affordable healthcare to all. Policy should be evaluated regularly, to observe changing trends in financial and economic growth of the population, to subsequently modify the rates of premiums and subsidies offered by the fund to suit shifting needs of the population.

Hence, the government and community as a whole are integral in contributing to NHIF that will in turn secure the population's financial needs. The reform can develop health market, by inclusion of different insurance providers into one scheme, by producing and utilizing resources within the community and by developing an appropriate cost base on need based collection and allocation of resources. However, continued resistance from stakeholders for risk pooling can distort the market by limiting the market size.

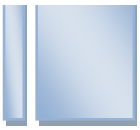
Outcome

The expansion of National Hospital Insurance coverage as a mechanism to financially protect the poor and needy from enormous health expenses, will help them to access affordable health care when necessary. Consequently, the health status of the country will improve. By risk pooling, healthcare expenses will be borne by the community as a whole rather than extensive burden on a single individual.[2] With an improved health status and curtailed health expenses, the country's economic growth and development will be augmented.

ADVANTAGES AND DISADVANTAGES OF REFORM SOLUTION

Advantages of the reform solution are ensured coverage to the poor and disadvantaged by risk pooling and "cross subsidization from the healthy and rich to the ill and poor."[2] With a common single payer insurance system, fragmented funds from multiple sources can be avoided, promoting universality and equity in financial resource distribution to the community. Involving the community as payers and buyers of the insurance system encourages accountability amongst the population in being responsible towards their health. Incorporating primary and preventive services can substantially reduce the government's expenditure on a whole by shifting focus from curative to preventive care, since the former is more expensive accounting to 70% of the total government expenditure.[4] An emphasis on transparency makes the government answerable to the public regarding usage of public resources.

Disadvantages of the reform solution are increased burden on the government and formal sector



employees to fund the NHIF, since currently only 4% of the government's funds are pooled into NHIF.[2,8] Increasing rates of premiums is a challenge as first requires political will and if agreed upon by the government it can also lead to resistance from formal employees, making it difficult to ensure compliance among them.[8] Ensuring financial sustainability is difficult, as the entire fund relies on formal sector and tax revenues, a decline in the economy will reflect on the amount of funds entering the scheme. The government will also need to design alternate policies to increase their own share to reduce their high dependency on donor funds, thus delaying implementation of the reform. Furthermore, resistance from private insurance companies due to a cut in their profits by risk pooling, will continue to be a threat to the reform's success.[2]

CONCLUSION

The Kenyan government's focus on health system is "improving accessibility, affordability and efficiency of health services for all".[1] Yet, the health system has failed in promoting equity, especially among the poor and disadvantaged.[2] Rather than creating a new universal social health insurance scheme for the people,[2] expanding the existing NHIF, reconstruction of policies governing it and ensuring every stakeholder including the people actively participate in improving their health status, will help Kenya on its path to achieve universal, accessible, affordable and equitable health services for every Kenyan citizen.[1,2]

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