The role of the employer in curbing the rising costs of healthcare in Africa

If you provide private medical insurance for your staff, you will have almost certainly noticed a rise in premiums over recent years.

While this is in part due to a general global trend, there are many ways that you as an employer can help keep the cost of providing quality healthcare for your staff in check. So let's take a look at why costs are rising so much – and what you can do about it.

Why are medical costs going up?

There are several factors that influence increasing medical insurance premiums. Some of them are global phenomena while others are more specific to Kenya.

Healthcare inflation: Health insurance premiums worldwide are on the rise, typically at a faster rate than general inflation. This is known as 'medical trend'. Here in Kenya for instance, the general inflation rate in 2016 was 5.5%, while the gross medical trend was almost double at 10%. In 2017 the general inflation rate is predicted to go up to 6% while the gross medical trend is set to increase at 12.5%.

This is likely to escalate, fuelled by a combination of factors including the ageing population, the spread of poor lifestyle habits and, ironically, increasing access to health insurance.

Only around 1.5 million people out of Kenya's population of 46 million currently have private health insurance. However, this is a huge increase from just 700,000 in 2010. Most of these are formal sector workers who receive health insurance as part of their employee benefits.

Of course you provide health insurance for your employees so they can make use of it, but the more people are insured and the more claims they make, the higher the premiums will go. In fact, predicted increases in rates of usage are a key element in calculating medical trend.

Increasing service use: The use of medical facilities increases when the amount of high-risk individuals increases. An aging population is just one of the factors that ensures services are used more frequently, as is the fact that people tend to go more frequently to the doctor when they have medical insurance. A Kenyan Ministry of Health report based on figures from 2013 showed that people with health insurance made much more use of inpatient services than those without: in fact, 7.6% of insured people were admitted to hospital compared with just 3% of those without insurance. The same differential didn't apply to outpatient services.

It's hard to unravel the reasons behind this. People with insurance may be more likely to follow a recommendation to undergo inpatient treatment than those without, knowing that the costs will be covered. However, doctors at top clinics and hospitals may be more likely to recommend further tests or treatment that will involve a stay in hospital.

Increasing hospital fees: In 2016, African publication *Business Daily* reported that top private hospitals in Kenya had increased their charges for outpatient consultations by 42% in 18 months.

Inpatient charges in Kenya's private hospitals have also shot up. In 2016, Nairobi hospitals were charging an average of KES 9,500 (USD 91) per day for a stay in a general ward compared with a daily charge of up to KES 60,000 (USD 577) in private hospitals.

The National Hospital Insurance Fund (NHIF) will cover between KES 2,000 (USD 19) and 4,000 (USD 38) of the daily charge, depending on the hospital. The rest will need to be covered by private insurance or out of the patient's pocket – a major struggle for many Kenyans. For outpatient fees, these will be covered in full, as long as the patient goes to one of their registered providers.

Meanwhile medical insurance providers have been reporting losses, as claims paid out overshoot premiums. Clearly this situation is not sustainable, so premiums will continue to rise as insurers attempt to make up the shortfall.

Reliance on expensive technology and drugs: Increasing demand for Western-standard healthcare is driving private providers to modernise, investing in expensive 'high-end branded' equipment, in the hope of attracting more customers. Unfortunately, the overall low demand for top quality medical equipment in Africa pushes up the price. And depreciation of the Kenyan shilling has further inflated the price.

While public hospitals have been tapping into forward-thinking equipment-leasing contracts, private hospitals have the means to buy top-of-the-range machinery outright. However, this is pushing up the fees private healthcare providers charge, which is having a knock-on effect on health insurance premiums.

The same issues apply when it comes to medicines. Imported branded drugs can be very expensive here in Kenya, but private doctors will prescribe them routinely rather than their cheaper generic equivalents.

Unnecessary tests, treatment and referrals overseas: In order to recoup the money spent on expensive equipment, it may be that some private doctors in Kenya now feel pressurised to send patients for tests, such as CT and MRI scans, when it's not strictly necessary. Worryingly, the same may apply to treatment. Kenya has a high rate of medical errors. It's possible that in some cases people are booked in for unnecessary operations purely to generate revenue.

In 2016, 880 doctors in Kenya were investigated following accusations that they were referring patients for treatment overseas, not because it was their best option but in return for cash incentives, up to KES 200,000 (USD1,925). Thankfully this has resulted in government guidelines being drawn up this year, advising doctors to refer patients overseas only when it will be in the interest of their patients.

The new guidelines should help to curb the problem of unnecessary overseas referrals, but it's important to know that some doctors' recommendations may not always be prompted by the patients' best interests. Many insurance providers offer second medical opinion services at no cost to their members, it would be advisable to utilise this benefit as this will help patients and their families to make more informed decisions around treatment options.

What can you do to keep medical costs down?

While some of these problems are outside your control as an employer, there are several steps you can take to help bring your company's health insurance premiums down.

Identify factors driving up your premiums: Ask your insurance provider or broker for a detailed breakdown of claims and usage data. Analysing these will help you identify if there are any noticeable trends or if particular employees are racking up a higher than average total of claims.

For example, are some employees consulting doctors significantly more often than others? And are there any particular preventable health issues that are plaguing your workforce? This overview will put you in a stronger position to tackle any issues that are pushing your premiums up.

Invest in workplace wellness and health promotion: Employers are increasingly putting wellness schemes in place, encompassing anything from exercise programmes to counteract inactivity-related problems, through to diet and health-awareness training and even preventative screening. Such measures will help your employees tackle potential health problems before they escalate, and encourage them to take responsibility for their own health. Both of these factors could go some way towards keeping your premiums down. Your analysis of claims data will help you identify areas to focus on.

A recent study showed that the Middle East and Africa are lagging behind the rest of the world in providing wellness schemes for employees. This could present a great opportunity for your company to shine out as a progressive and caring employer. It could also make your workforce more productive – one 2013 independent US study found that workers who eat healthily are 25% more likely to have higher job performance, while a 2012 Israeli study found that workers who exercised regularly were less likely to experience burnout at work.

A good insurance adviser will be able to help you put an appropriate wellness programme in place.

Encourage employees to ask questions: We know that tests and treatment that involve the use of expensive machinery can push up healthcare charges and premiums. You can use internal communications tools such as an intranet or staff newsletter to educate employees about the importance of checking with doctors whether certain tests and treatments are actually necessary.

The same applies to expensive branded drugs. Encourage your employees to ask their doctors to prescribe generic alternatives where possible or 'parallel imported' originals – branded drugs imported by selected pharmacies and sold at a reduced price.

Consider use of deductibles and co-pays: One approach that an increasing number of companies use is shifting some of the health costs to their employees through a system of deductibles or co-pays. Employees must pay a fixed fee (a 'deductible') towards their medical costs before health insurance kicks in. The fee can be limited to either the condition or a time period. Co-pays are similar but tend to be a smaller amount applied on a per visit basis so employees would have to pay a small fee each time they went to a doctor. This can help restrain premium growth by making employees think more about their health spending and claims.

Encourage use of panel doctors or providers: Incentivising employees to use an approved group of doctors or healthcare providers, known as 'panel' doctors or providers can help keep costs down. The panel doctors provide care at a reduced rate in return for a guaranteed client base.

Taking control of your workforce wellbeing and medical costs

As I've outlined above, there are several measures you can take to counteract the relentlessly upward trajectory of healthcare costs in your company.

By providing the insurance your employees need and helping them improve their health through workplace wellness, you will be rewarded with a more productive and loyal workforce. Several studies show that people who are valued by their employer are more likely to stay and grow within the company, saving you on recruitment costs and boosting productivity and profitability.

About the author:

Alniz Popat, Founder and CEO at Lifecare International

Alniz founded Lifecare 20 years ago in his native country Kenya to address the growing need for individual and corporate health insurance solutions. Soon thereafter Alniz expanded into Dubai, and in recent years he added yet another office with the establishment of Lifecare's presence in Qatar. As CEO of Lifecare Alniz is responsible for the strategic direction of the business, and it is his drive and passion to help people get the right healthcare through affordable insurance that has resulted in Lifecare's strong growth over the years. Today Alniz proudly oversees 100 caring and passionate employees who work tirelessly to deliver an excellent service to the 1,200 businesses and 25,000 members who are part of the Lifecare client portfolio. Alniz is a graduate of the University of Western Ontario, Canada in Finance and Economics, and is an active member of the Young Presidents' Organisation in Kenya, and the World Presidents' Organisation in the United Arab Emirates.