

## Using Health Insurance to Improve Quality of Care

### Concept Note

Poor households need to overcome two fundamental challenges when faced with a health emergency. The first challenge has to do with financial resources. Poor households have access to limited financial resources to pay for the necessary treatment due to low personal savings and poor access to risk mitigation mechanisms such as loans and health insurance. While we do not have sharp statistics, anecdotal evidence suggests that health shocks greatly affects the economic standing of poor families. The World Bank 2004 World Development Report highlights the impact illnesses have on pushing households into poverty due to both lost wages and spending on treatments. The World Health Organization Report 2008 cites that 100 million people across the world fall into poverty every year because of these health care costs<sup>1</sup>. A driving force is the high out-of-pocket health spending in many developing countries.<sup>2</sup>

The second challenge relates to the quality of care available to households and the informational challenges they face in trying to access this care. While access to health care, as measured in number of facilities and doctor visits, has improved in many low income countries, the actual quality of care, as measured by accuracy of the diagnosis and treatment, available to household remains low. Low income households are particularly disadvantaged because their limited financial capacity not only affects their ability to access high-quality providers, but also because the less competent doctors might put in less effort<sup>3</sup>. In a survey of Delhi health care providers, Das and Hammer found that overall quality of providers was not only low but also variable across public and private providers.<sup>4</sup> The informational challenges and subsequent uncertainty means that households, often, do not know where to go for treatment, what type of treatment they need, or what price to pay for the treatment.

Can health microinsurance overcome these two fundamental challenges? It is fairly clear how health microinsurance can protect a household's financial resources. Reasonably-

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<sup>1</sup> Xu K et al (2007) in WHO Report 2008. "Protecting households from catastrophic health expenditures". Health Affairs.

<sup>2</sup> Pauly, Mark, Fredric Blavin, and Sudha Meghan (2008). "Is there a market for voluntary health insurance in developing countries?" National Bureau of Economic Research Working Paper 14095. The percentage of health spending that is out-of pocket (i.e., not paid by insurance) is about 12 percent in United States as compared to 64 percent in Bangladesh; 59 percent in Ghana; 78 percent in India; 55 percent in Paraguay; 47 percent in the Philippines; and 62 percent in Vietnam. The figures are from the 2002 World Health Survey, a World Health Organization household survey covering about 4,000 to 6,000 households per country.

<sup>3</sup> Jishnu Das, Jeffrey Hammer and Kenneth Leonard (2008). "The Quality of Medical Advice in Low-Income Countries." Journal of Economic Perspectives.

<sup>4</sup> Das, Jishnu and Jeffrey Hammer (2004), "Strained Mercy: The Quality of Medical Care in Delhi." Economic and Political Weekly, 39 (9): 951-965.

priced policies, if designed properly, can minimize a family's exposure to risk through coverage that protects against health shocks. What is not as clear is how insurance can address informational asymmetries and the quality of care. We investigate this relationship through this study.

How can insurance, that addresses financing concerns, also affect the quality care available to poor households? This question challenges conventional wisdom maintained by many insurers. Insurers claim that they cannot administer health microinsurance in poor communities because it is difficult to find quality health providers to serve as partners. While this constraint is real, focusing on it obscures the potential insurance policies, which emphasize a quality focus, can have in actually improving service delivery. Insurance can improve access to quality care in two distinct ways – first, insurers can enforce service quality by providers that are visited by poor households; second, insurers can provide access to higher-quality providers which might have been off-limits previously because of resource constraints.

Micro health insurers can leverage their institutional position and aggregate, otherwise limited, financial resources to fix quality deficiencies in the healthcare available to poor households. Insurers can achieve this by including a variety of quality-control mechanisms in their contracts with the health care provider. Mechanisms include the establishment of a network of preferred providers, a pre-determined price schedule, prescribed list of treatments for illnesses, oversight by qualified doctors on staff, automatic payment mechanisms, health guidance to providers; all of which improve the insurer's ability to monitor service delivery while reducing the uncertainty faced by poor households. Another option is to provide easy to understand health information to clients, helping them to become more informed and empowered consumers of care.

It helps that the insurer's and client's interests are aligned in a couple of ways. Both parties are interested in controlling costs and protecting the client's health. Insurers are able to pool resources to negotiate lower prices with high-quality providers in return for steady demand. Aggregating these resources means that relationships are forged with providers who might not otherwise be accessible to low income clients. Some insurance schemes provide health education workshops and primary care by providing access to preventive health care facilities. These features could have a significant impact on household welfare when resource-constrained households have a tendency to delay seeking medical treatment.

Various existing microinsurance schemes include these features. BASIX, a microfinance institution, provides health insurance coverage through a partner-agent model; while, Uplift, an association of nine non-profits, provides similar coverage through a community-based insurance system. Both organizations leverage their large block of customers to certify and contract with high-quality providers. In addition, Uplift provides preventive healthcare workshops and a 24/7 hotline for customers seeking advice and guidance to best providers during health emergencies.

Our approach will include qualitative analysis of existing schemes along with a review of academic literature and institutional case studies. We will supplement our research with interviews and focus group discussions with practitioners, academics, donors, policy makers, and clients.

## Research Questions

- How does participation in a health insurance scheme affect the quality of care received by households?
- How can incentive or payment mechanisms for the provider affect the quality of care?
- Does insurance exacerbate or alleviate moral hazard concerns related to the provider? Does insurance help ensure that the correct treatment is administered at the correct price or does it lead to overuse by both clients and providers?
- What specific features of insurance policies affect service delivery?
- What business partnerships and models can be designed to effectively address quality of care issues?
- Do households know or care about quality dimensions of insurance policies such as provider certification, preventive clinics? How do these features affect take-up and use?
- Do clients prefer open choice of providers and thus no quality control or restricted choice with options for quality control?
- Do institutional models (partner-agent, mutual) differ in their use of the highlighted features?
- What are the cost implications of including these features from the insurer's and provider's perspectives?

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The Financial Access Initiative (FAI) is a consortium of researchers at NYU, Yale, Harvard and Innovations for Poverty Action, housed at NYU's Wagner Graduate School of Public Service. FAI is focused on analyzing how access to financial services, including credit, savings and insurance, can better meet the needs of poor households.

The Micro Insurance Academy (MIA) is a Delhi-based charitable trust dedicated to evidence-based studies, training and advisory services for microinsurance units serving the poor. MIA works to empower communities to play an active role in insurance while lifting themselves out of poverty. MIA ensures sustainable operations of community-based micro health insurance schemes by creating an enabling environment that links microinsurance units to reinsurance.