

**Presentation to GIBS Healthcare
Strategies Conference 14 October 2005**

**The Access Frontier for Health
Insurance**

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FinMark Trust



Making Financial Markets Work for the Poor

V 1.0

- § Independent trust formed in April 2002
- § Initial funding from UK's Department for International Development (DFID)
- § Mission: "*Making Financial Markets Work for the Poor*"
- § Facilitating and catalysing the next generation of development around access to financial services.
- § Further information available at www.finmarktrust.org.za

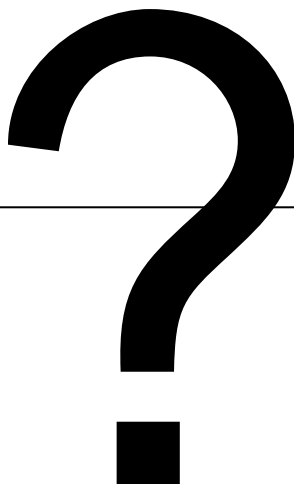


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Poor people need financial services

- § To provide a path out of poverty
- § So that a temporary misfortune won't push them into destitution



But in addition:

- § A political and social priority
- § A priority for growth
- § HENCE it affects everyone

Why does access matter?

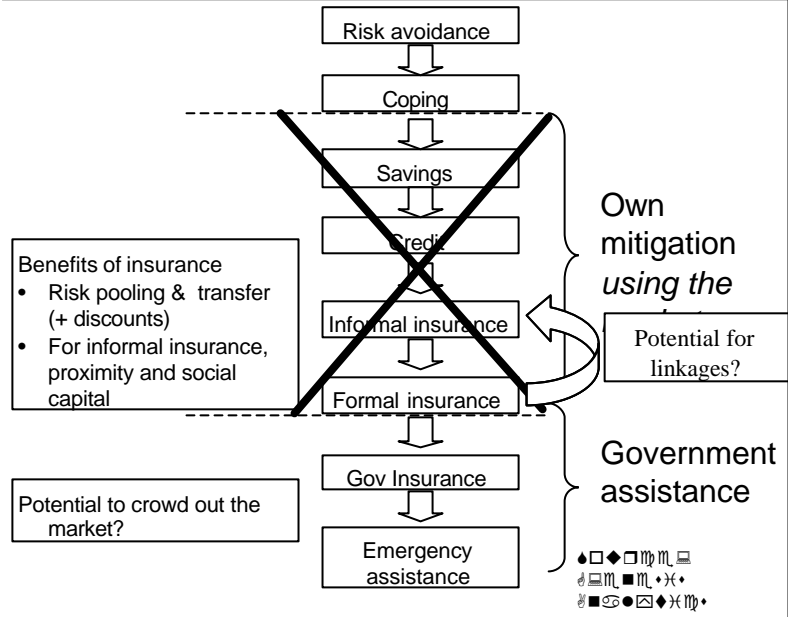


THE RISK FRAMEWORK MODEL



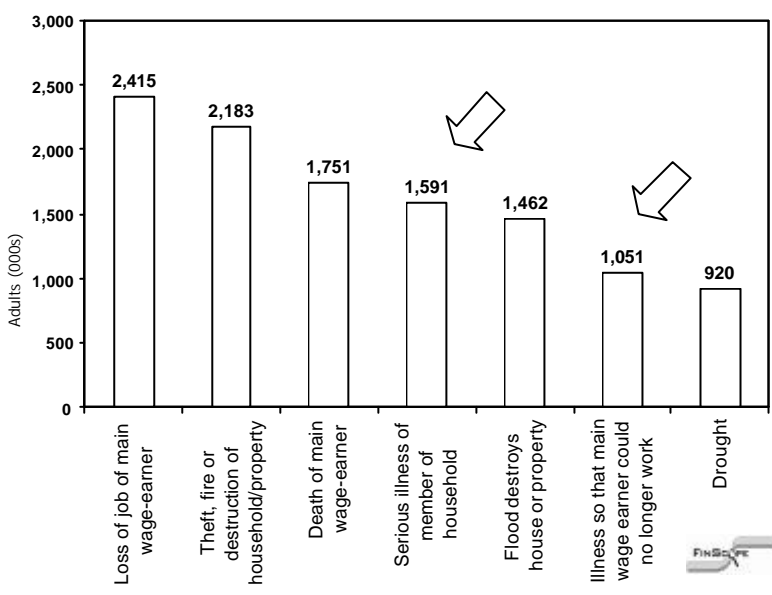
Risk mitigation in practice

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How the poor deal with adverse events

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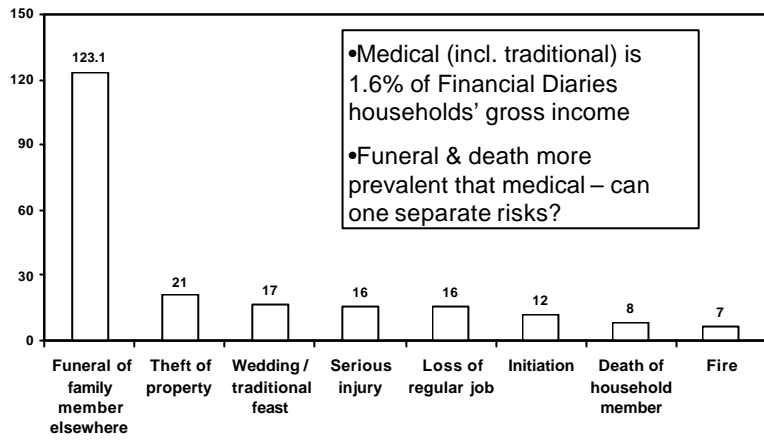


Reality of household risk in LSM 1-5

Source: Finscope V 1.0

Incidents over 16 months in 167 poor households

7



Average cost R945 R2,289 R3,572 R2,693 R4,080 R8,737 R1,771

Source: Financial Diaries Project 2004 www.financialdiaries.com

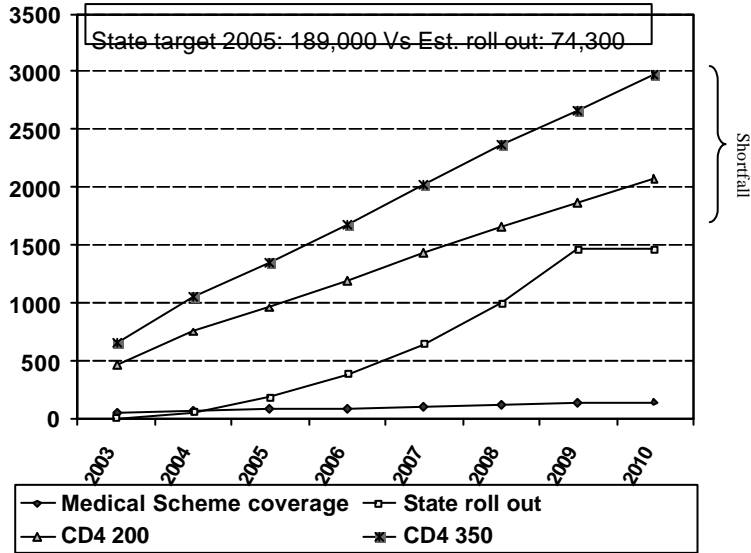
Reality of household risk in poor households



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Axis: 000's of people

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Source: Toth Associates, 2004, Joint Civil Society Monitoring Forum 2005

Living with AIDS – the real challenge



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THE ACCESS FRONTIER



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~~Defining access~~

- § Dimensions of access:
1. Affordability
 2. Physical proximity
 3. Appropriate features

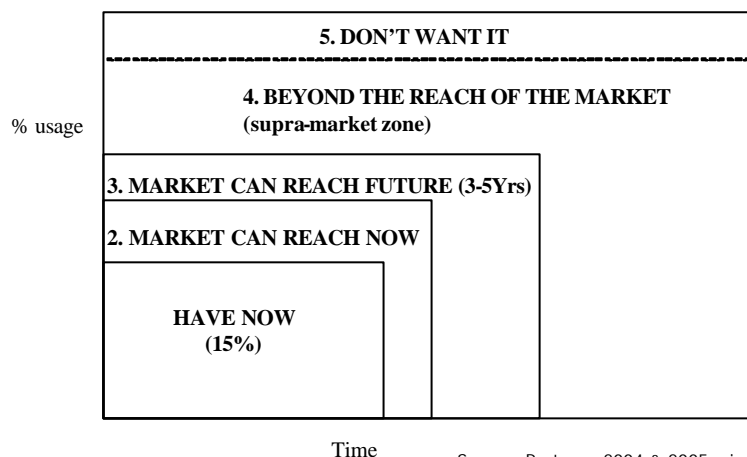
- § Access vs usage



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**The Access Frontier: introduction &
background**

The Access Frontier is defined as the “*maximum proportion of eligible consumers who presently have access to the product or service*”.



Source: Porteous 2004 & 2005 mimeo

The Access Frontier: Introduction & background



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SA health insurance context

- § Segmentation of providers
 - Regulated: open and restricted schemes
 - Bargaining council schemes (exempt)
 - Other insurers (demarcation)
- § Active and extensive regulation
 - Medical Schemes Act
 - Demarcation
 - Prescribed minimum benefits (PMB)
 - Risk Equalisation Fund (REF)
- § Lower-income exposed
 - Coverage limited to high-income
 - State subsidy to high-income (to be capped)
 - For those who are in the system: Employers move to cost-to-company basis

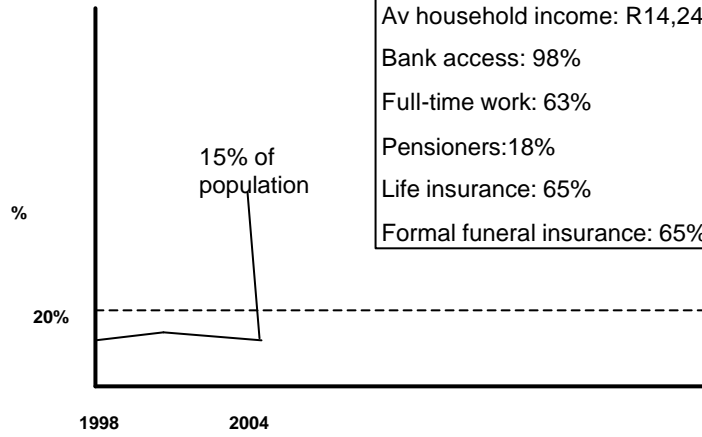
The Access Frontier: Introduction & background



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Current usage and trend

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Have now:
 Av household income: R14,241
 Bank access: 98%
 Full-time work: 63%
 Pensioners: 18%
 Life insurance: 65%
 Formal funeral insurance: 65%

Source: AMPS, Statutory returns, FinScope, Genesis

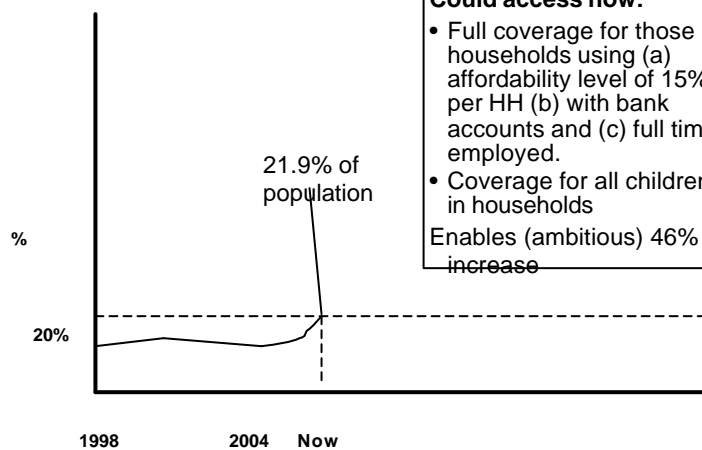


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Developing the frontier

Could access now

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Could access now:

- Full coverage for those households using (a) affordability level of 15% per HH (b) with bank accounts and (c) full time employed.
- Coverage for all children in households

Enables (ambitious) 46% increase

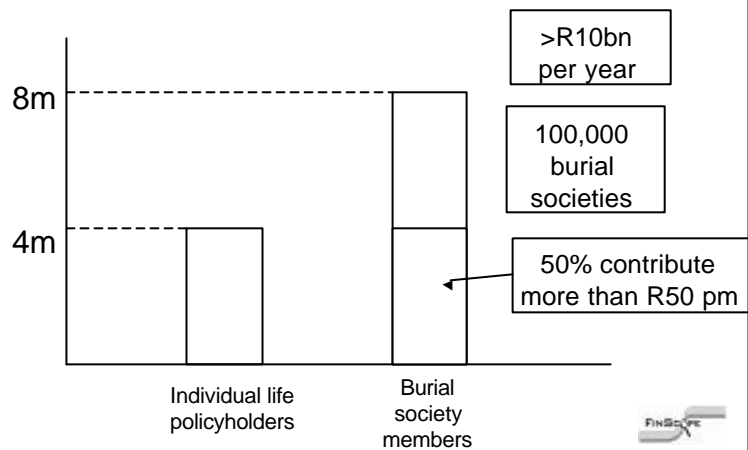
Source: AMPS, FinScope, Genesis



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Developing the frontier

SA's large lower-income market untapped by formal insurance



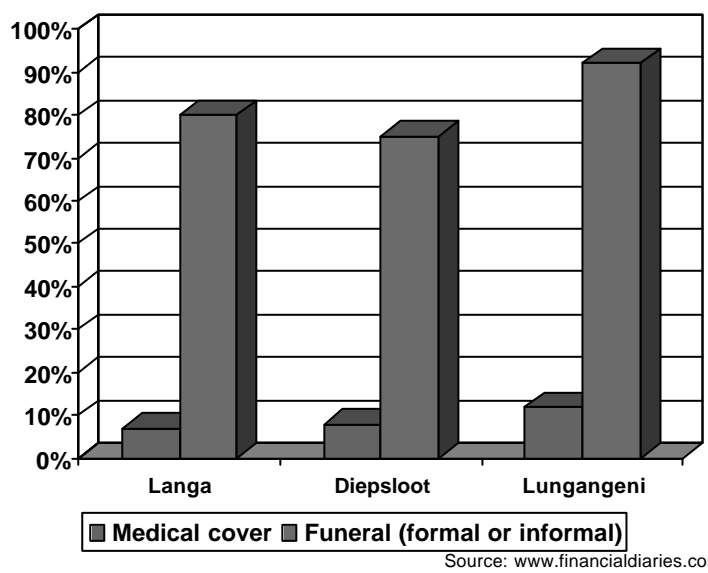
Lower income market willing and able to pay for risk mitigation



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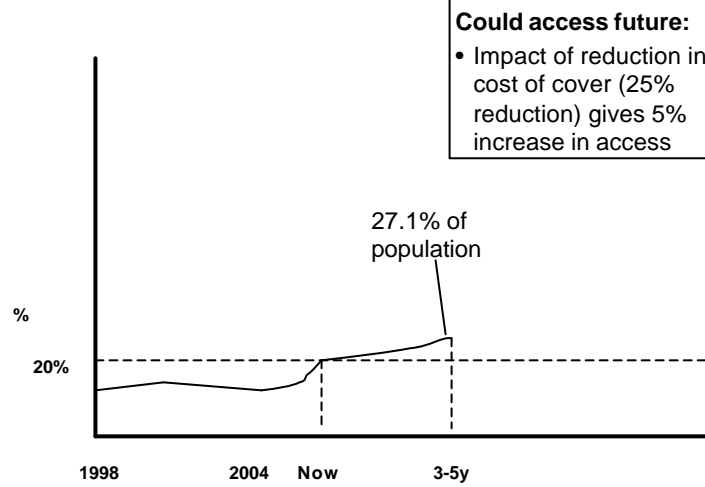
Financial Diaries: who has what? Lessons for distribution?



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Could access in 3-5 years: tweak pricing

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Could access future:
• Impact of reduction in cost of cover (25% reduction) gives 5% increase in access

Source: AMPS, FinScope, Genesis

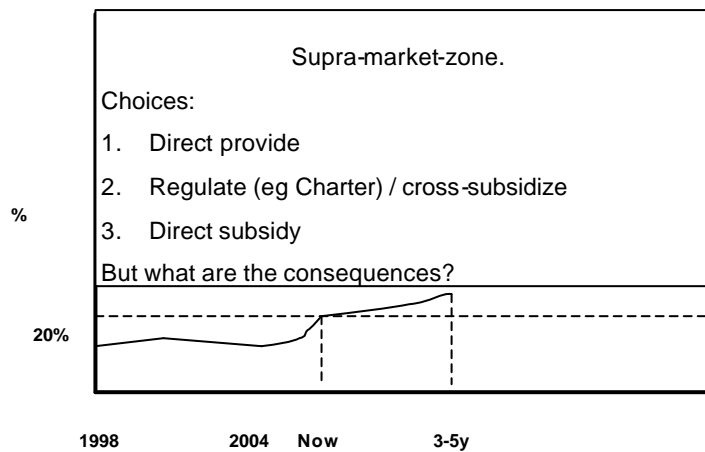


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Developing the frontier

~~Beyond market reach (current prices)~~

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Source: AMPS, FinScope



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Developing the frontier

1.Price discriminating enables market-determined cross-subsidization to take place in sustainable fashion. Determined by (a) regulatory factors such as price caps, and (b) characteristics of the product e.g. VW & Skoda

2.Lumpiness of the product i.e. how much must be laid out upfront to purchase the product relative to income. E.g. cell phone hand set subsidies

3.Scale of production and distribution to allow for economies of scale → choices in providers.

Market characteristics affecting access



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3 POSSIBLE ALTERNATIVE SCENARIOS



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2 Key choices

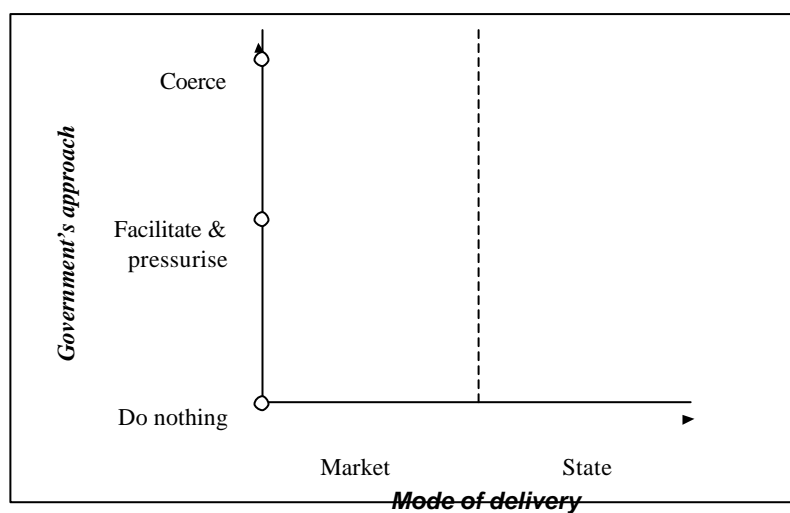
1. Which model for expanding access?:
Who pays?

Key uncertainties



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Key choice: Who pays?



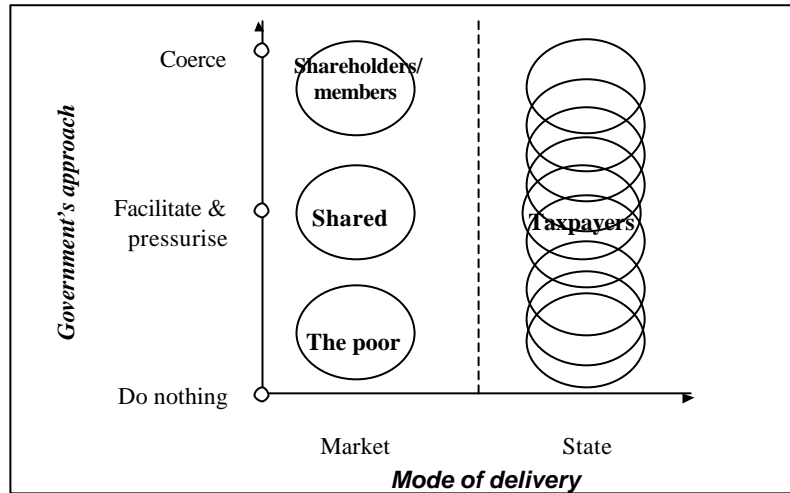
Choice #1: Model for expanding access



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Key choice: who pays?

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Choice #1: Model for expanding access



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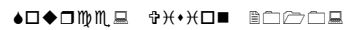
Key choice#2

Will there be an open or closed architecture
in financial services?



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- § The blue-print which wires together the players
- § It evolves from a series of choices made by government and private sector
- § It can be open in name but de facto closed

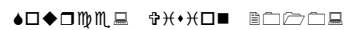


Choice #2: open or closed architecture



- § Removes massive barriers to entry (eg does lack of reinsurance prevents new entrants?)
- § Facilitates rivalry, innovation and market expansion
- § May be less stable
- § Requires a different role for state:
 - Leadership, coordination, facilitation, supervision

Whether the architecture of the sector is open or closed depends on both public sector and private sector decisions

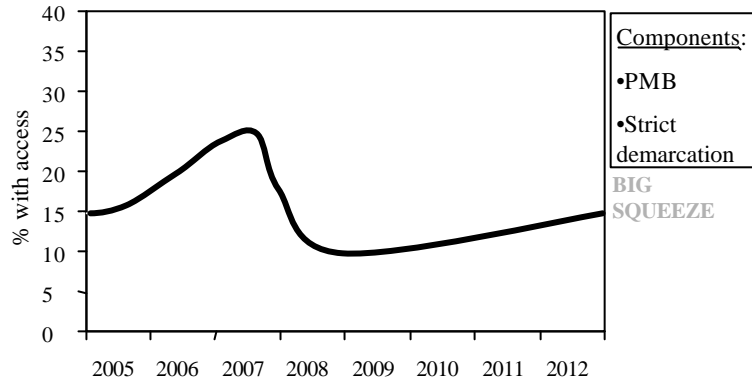


Choice #2: open or closed architecture



Scenario 1: The big squeeze ²⁹

§A tale of market dynamics with de facto closed architecture and investors paying



3 possible alternative scenarios to drive access

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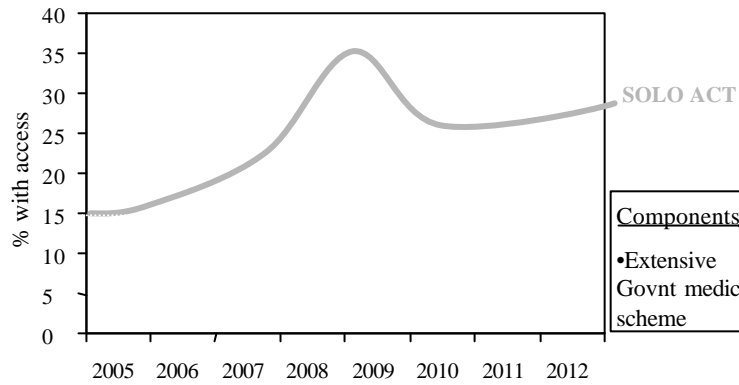


But is this the optimal choice? Introducing St Peters Child Care

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Scenario 2: Solo act ³¹

§A tale of the do-it-yourself approach with de facto closed architecture and taxpayers pay

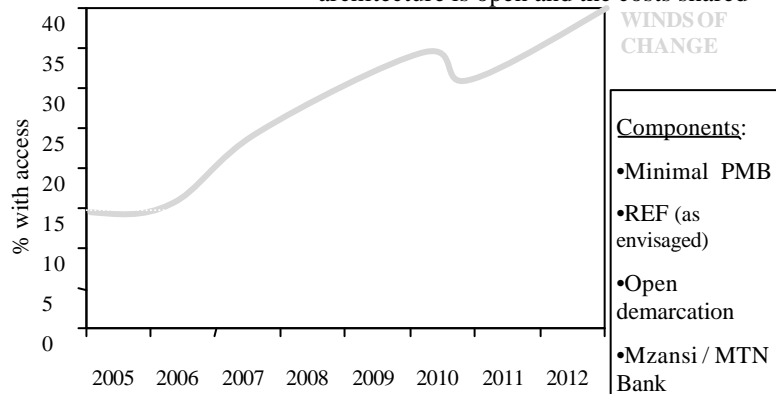


3 possible alternative scenarios to drive access

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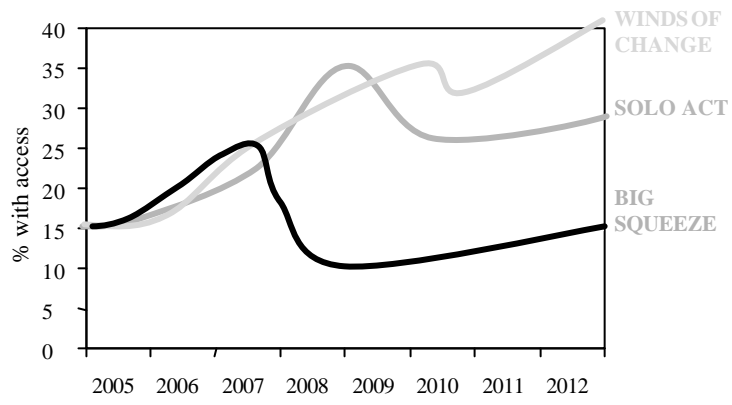
Scenario 3: Winds of change ³²

§A tale of the breezes and gales which blow when the architecture is open and the costs shared



3 possible alternative scenarios to drive access

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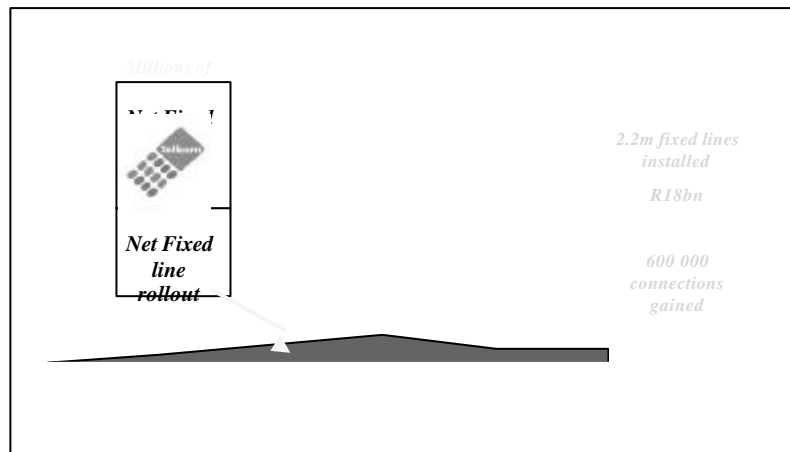


**Scenarios compared:
A summary**



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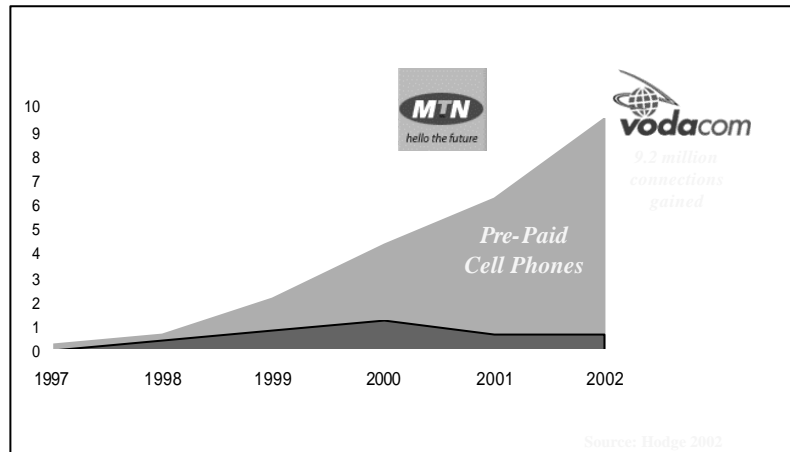
In 1996, Telkom was given a fixed line monopoly in exchange for expanding access to telephony



A cautionary tale about expanding access



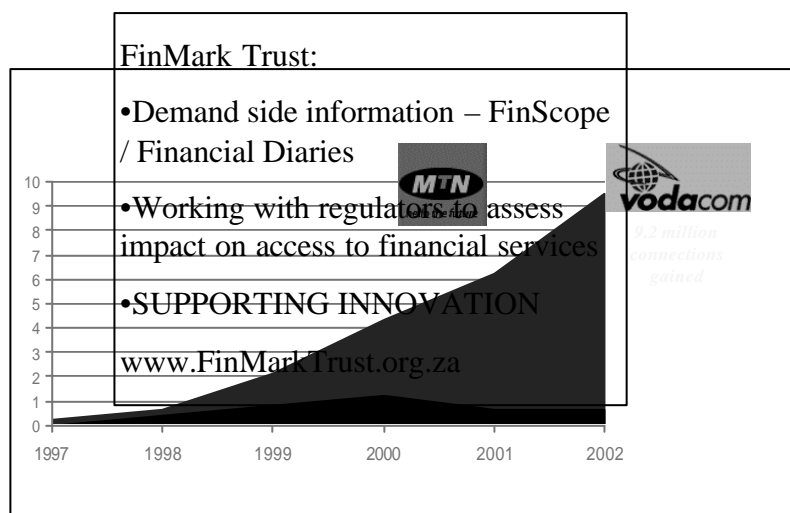
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...and along came..



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We partner with innovators to open sustainable market access



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