Impact Insurance

International Labour Organization

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Financial inclusion and health: How the financial services industry is responding to health risks

Briefing Note

Ill health is both a result of and cause of poverty – attaining good health is therefore an intrinsic objective that cannot be ignored in the pursuit of social and economic empowerment. The World Health Organization estimates that each year about 150 million people around the world suffer financial catastrophe from out-of-pocket expenditure on health services, while 100 million are pushed below the poverty line. Unless health issues are addressed, the impact promised by access to finance will be limited.

For development experts working on financial inclusion, ensuring that low-income households have bank accounts and can access loans is not a sufficient objective. Financial inclusion – the provision of affordable financial services to low-income segments of society – is really a means to an end. Access to financial services by itself does not contribute to development, but rather it depends on how those financial instruments are used.

Developing health solutions can be a triple win for clients, society and financial service providers (FSPs). For FSPs, keeping clients and their families healthy makes business sense. While there is great demand for such solutions, only a few FSPs have focussed on tackling health challenges. There is considerable scope for further experimentation.

Our latest paper explores the context of health, highlighting the different costs associated with maintaining good health, and the efforts of governments to support citizens in managing these expenses. These health costs include non-medical expenses often omitted from the discussion on health expenditure, such as the lost income while ill. The paper includes a description of how different financial instruments, such as savings, credit and insurance, as well as non-financial services are contributing and could further contribute to managing health expenses. We draw on a number of case studies where FSPs have developed products and services to specifically tackle health needs. From these case studies, a number of key themes have emerged:

1. **FSPs have the potential to be powerful distribution agents, helping enrol those in the informal sector into government health schemes.** An example is M-TIBA in Kenya, a mobile 'health wallet' connected to a digital platform, which connects patients, healthcare providers and healthcare payers. M-TIBA is acting as an agent to enrol low-income households into the National Hospital Insurance Fund.

2. **Health savings and credit products are possible solutions for smaller health expenses, with savings having a potentially greater protective impact over the long term.** Research shows that when households have access to health savings accounts, it is possible that their long-term health costs will be lower because healthcare can be sought earlier.

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3. **Insurance can play a complementary role, helping to cover lost income and out-of-pocket (OOP) expenses.** FSPs should not try to compete with or substitute government-sponsored comprehensive health cover – generally any FSP would struggle to attain the required degree of risk pooling and revenue raising that a government can, and this is needed for the cross-subsidies from the wealthy to poor and healthy to sick that make a comprehensive healthcare package affordable to the poor. Unlike insurance companies, Universal Health Coverage (UHC) schemes have the potential to raise and pool greater revenues through taxation. Given the relationship with public sector healthcare providers and regulators of the private healthcare sector, governments also tend to have stronger negotiating power with all healthcare providers than insurance companies do. However, even where UHC schemes exist, citizens are still expected to cover OOP and non-medical expenses, such as medication, lost income while sick, transportation to the hospital and home, meals and other such associated expenses. An ill-health episode can generate a string of such expenses. These coverage gaps represent a possible opportunity for FSPs if they can design financial solutions to manage the risk of these residual expenses. These solutions can be critical because, for low-income populations, even small OOP expenses can be barriers to accessing healthcare.

4. **Besides financial services adapted for health, FSPs can also consider bundling non-financial solutions, also known as value-added health services, with savings, loans and insurance.** Value-added services include reward-based schemes to incentivise healthy behaviour, telemedicine, health tips, provider checks, negotiated discounts and the direct investment into the health of clients.

5. **For maximum impact, FSPs can bundle together a number of different health-focussed products and services.** Packages that combine access to government health schemes with health savings accounts, health loans, supplementary health insurance, and relevant value-added services could make an important contribution to combatting the cycle of poverty by helping households and micro and small enterprises manage their health risks.

6. **Gender dimensions need careful considerations when designing products and solutions.** The relationship between women, family health and barriers to financial inclusion need to be carefully understood before products and solutions are designed.

7. **Pilots are important.** Addressing financial needs related to health can be complex and products may need a number of iterations before they succeed. Careful planning and piloting was one of the reasons for success cited by Jordan's Microfund for Women for its health insurance product "Caregiver".

Evidence shows that FSPs can have a significant impact on the health of their clients and their families. Developing new solutions starts with a thorough understanding of the country context and understanding the needs and lives of clients. There is great scope for FSPs to develop new health solutions, especially with advances in mobile and health technology. Given that FSPs working on financial inclusion already have an understanding of and access to populations typically excluded from health cover, the financial services industry is well placed to expand its repertoire, reap the rewards of healthier customers and contribute to better global health.

The ILO's Social Finance Programme works with the financial sector to enable it to contribute to the ILO's Decent Work Agenda. In this context, we engage with banks, microfinance institutions, credit unions, insurers, investors and others to test new financial products, approaches and processes. The Impact Insurance Facility contributes to the Social Finance agenda by collaborating with the insurance industry, governments and partners to realize the potential of insurance for social and economic development.