FACTORS AFFECTING THE UPTAKE OF PRIVATE HEALTH INSURANCE: A SURVEY OF JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY EXECUTIVE MASTER OF BUSINESS ADMINISTRATION STUDENTS

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ABSTRACT

The Government expenditure on health has continually declined against increasing population and rising cases of costly diseases such as HIV/AIDS, Tuberculosis and Malaria. The main objective of the study is to investigate the factors influencing the uptake of private health insurance in Kenya. The specific objectives are: to determine the effect of awareness of health insurance packages on uptake of private health insurance; to find out the extent to which income affects the uptake of private health insurance in Kenya; to determine how the clients' attitude affect the uptake of private health insurance in Kenya; and to determine how government policies influence the uptake of private health insurance in Kenya. This was a descriptive survey study aimed at investigating the factors influencing the uptake of private health insurance in Kenya. From the table above, the study grouped the target population into 13 strata i.e. cohorts1-13. From each stratum the study selected 10% of its target population by simple random sampling to select a total of 61 respondents. From the findings, the study concludes that awareness of health insurance packages affects the uptake of private health insurance. The study concludes that income affects the uptake of private health insurance. Insurance participation with symmetric information, which predicts that a household's willingness to pay for an insurance contract increases if the household is more risk averse. The study concludes that government policies influence the uptake of private health insurance. The study recommends that the government, the Insurance Regulatory Authority and the insurance industry in Kenya should start a nation-wide campaign to inform and educate the general public about private health insurance in Kenya and counter the negative attitude towards private health insurance.

Key Words: *Private Health Insurance, awareness, income, clients' attitude, government policies*

INTRODUCTION

In the seventies the health insurance market had a few mainly indemnity schemes most of which were provided by overseas insurers and a few local underwriters. According to Mbatia (1996) the eighties saw the entry of Health Maintenance Organizations (HMO's) and the introduction of managed care principles. In the mid to late nineties, local underwriters, thanks to HMO's, began

to incorporate various degrees of managed care principles into their traditional indemnity covers resulting in what is called Managed Indemnity Schemes that are now common in the market (Mbatia, 1996).

Funding for health care has become a collective responsibility because of the importance of the facility and the rising costs of health services. Kenya spent about Kshs 71 Billion in 2005/2006 financing the provision of healthcare. The private sector was the largest contributor of this healthcare expenditure (39.3 percent) followed by donors (31 percent) and the government (29.3 percent). Out of pocket expenses for healthcare services were 29.1percent of the total healthcare expenditure. In-patient care accounted for 29.8 percent (21 Billion), outpatient 39.6 percent (28 Billion) and Health administration 14.5 percent (Jütting, 2003). The growth rate for inpatient expenditure was 15 percent while outpatient was 9 percent between 2002 and 2006. In terms of financing agents and intermediaries, 57 percent of total health expenditure went through the private sector. Private insurance accounted for about 5.4 percent and self funded schemes 4.1 percent in 2005/2006. Only about 10 percent of Kenyans had some form of health insurance. Out of this 10 percent who are insured, NHIF had 83.8 percent and Private Insurance 19.9 percent (UNDP, 2001).

Over the last 20 years, the private health sector in Kenya has grown significantly. Any meaningful strategy to improve health outcomes in Kenya must look beyond the public sector and consider the potential of the not-for-profit and the for-profit (commercial) health sector. The current Government of Kenya understands this, and the private sector is very much a part of their Vision 2030 plan for growth in all areas, including health. The government's bilateral and multilateral development partners are also becoming aware of how large a role commercial health providers play in the health system. According to World Health Organization (WHO), Kenya's private sector is one of the most developed and dynamic in Sub-Saharan Africa (WHO, 2004). In the health sector, the private commercial (for-profit) sector and the not-for-profit sector play critical roles in improving the health care. Even among the poor, the private sector is an important source of care. For example, 47 percent of the poorest quintile of Kenyans use a private facility when a child is sick (Marek, O'Farrell, Yamamoto and Zable, 2005).

STATEMENT OF THE PROBLEM

The alternative private sector has been described as very expensive for the poor. These have proved inadequate and often leave the person with the burden of medical bills to pay (UNDP, 2001). The insurance firms on the other hand have been financing health care based on pay first and claim reimbursement after treatment. This presents the clients with the problem of raising deposits for treatment as required by most of the private hospitals. It is against this background that health management organizations have joined the health service provision sectors. These challenges saw the introduction of health insurance principal whose role includes being a vehicle for healthcare financing through risk pooling. Health insurance plays a critical role of facilitating access to quality healthcare services as lack of financing is a major barrier to healthcare access in East Africa. Health insurance also acts as risk management. However, there are key challenges facing private health insurance. Khamala (1985) asserted that to most people in Kenya, the term insurance brings three impressions; fast talking salesmen bent on convincing one into buying insurance against ones better judgment, tricking insurance company that does not honor their obligation when claims are lodged and a range of other unfavorable impressions usually brought by some unfortunate past dealings with an insurance company. However, these impressions have not been supported by research, and specifically on medical insurance schemes hence creating a research gap that this study seeks to fill by conducting a study to investigate the factors influencing the uptake of private health insurance- a study of Jomo Kenyatta University of Agriculture and Technology Executive Masters of Business Administration students studying at the Kenya Institute of Management.

OBJECTIVE OF THE STUDY

1. To determine the effect of awareness of health insurance packages on uptake of private health insurance
2. To find out the extent to which income affects the uptake of private health insurance in Kenya
3. To determine how the clients' attitude affect the uptake of private health insurance in Kenya

4. To determine how government policies influence the uptake of private health insurance in Kenya

LITERATURE REVIEW

Agency Theory

In the Agency Theory a contractual relationship is entered by two persons that are the principal and the agent so as to perform some service. This involves delegating some decision making authority to the agent by the principal (Jensen and Meckling, 1976). At the same time an agent is a person employed for the purpose of bringing their principal into a contractual relationship with a third party and does not make a contract on their own behalf. The legal doctrine which applied was 'qui facit per alium facit per se (he who does something through another does it himself) (Wright and Oakes 2002).

According to the English and American law the liability of a principle for his agent torts in the ordinary course of his employment depended upon the existence of a master- servant relationship. The master was vicariously liable for his servant tortuous conduct committed within the course of employment (Yin, 1989). There were cases where an agency relationship arose when an individual group called principal hired someone called an agent to perform some service, where the principal delegated decision- making power to the agent. This kind of relation included those between stock holders and managers and between stockholders and debt holder.

Remuneration Theory

The problems faced by insurance brokers and agents related to their inability to understand that in the absence of a contract, expressed or implied, there can be no valid claim to remuneration for their services (Berry, 1995). Majority of insurance agents and brokers believed wrongly that payment was obvious. The other problem was when the principal prevented performance i.e. received the client's pay once the agent or broker had terminated the contract. Most brokers or agents argued that through such behavior, principals sometimes used them to get connections and once this was achieved they terminated the agency relationships and wanted to proceed on their own (Birds, 1993). In such cases the law seemed to be unfair to the brokers and agents when the principal denied them their rightful share of compensation by withdrawing from the contract.

As a consequence, many insurance brokers reduced their emphasis on broking, touting instead their "consulting" skills. Larger brokerage firms attempted to realize economies of scale by centralizing their operations, establishing clearinghouses to process renewals. Not only did brokerages fail to reduce their costs, but they succeeded in distancing the client from the brokerage process. Only now, in the midst of one of the hardest insurance markets in decades, are risk managers and financial executives beginning to recognize the adverse impact of the soft market on the standards of professionalism within the insurance brokerage industry.

EMPIRICAL REVIEW

Public awareness

A health insurance scheme involves contribution based on means and utilization based on need. A health insurance scheme has been defined as an arrangement in which contributions are made by or on behalf of individuals or groups (members) to a purchasing institution (a fund) which is responsible for purchasing covered services from providers on behalf of the members of the scheme via public awareness (Kutzin, 1997). It is the opinion of Nigeria government that the NHIS will probably solve the problem of inequality in the provision of healthcare services and help to improve public awareness to healthcare (Ibiwoye and Adeleke, 2007). Assessment of the programme after four years of operation reveals less than 3% coverage of the Nigeria population, (Ibong Ukpong, 2009).

Client Attitudes

Attitude is tendency to respond to a product brand or company in a way that is consistently favorable or unfavorable. The more favorable private clients' attitude towards private health insurance the higher the usage and the more unfavorable the clients' attitude towards the private health insurance scheme the lower the usage. The attitudes of clients do not guarantee that certain behaviour will occur but they are useful guides to what insurers and their clients are likely to do in certain circumstances. The public tend to have a poor image and a bad attitude towards insurance companies' because of the tendencies of these companies for non-payment and delays in the payment of claims (Rothschild and Stiglitz, 1976). The insurance companies are perceived as being dishonest in their dealings with their clients and looking at all possible excuses not to pay for claims.

Income and Premium cost

In a simple setting Giné *et al.* (2008) considered a model of insurance participation with symmetric information, which predicts that a household's willingness to pay for an insurance contract increases if the household is more risk averse; increases with the expected insurance payout; increases with the size of the insured risks; and decreases with basis risk. However, it is obvious that many households remain uninsured against significant income risks due to various reasons. Deviating from the above described full-information simple model, adverse selection and moral hazard are largely considered as potential explanations for barriers to insurance participation (Cawley and Phillipson, 1999). Providing insurance has all the incentive problems related to the provision of credit (Rothschild and Stiglitz, 1976; Browne and Doerpinghaus, 1993; Pauly, 2004). Private health insurance is also considered to be a luxury good in countries with national health insurance schemes and therefore sensitive to fiscal incentives (Font and Bonet, 2008) and this leads to high premium costs thus discouraging the uptake of private health insurance.

Government Policy

In most developing countries with a lack of formal protection mechanisms, people rely more on out-of pocket payment from personal assets, and help from relatives or informal risk-sharing arrangements available in the community to cover health care costs more than any other source of revenues (WHO, 2005). According to the World Health Report 2002, in about 60% of low income countries, out-of pocket payments constitute about 40% or more of total health expenditures. About 70% of ASEAN countries have 60% or more private health spending. The reliance on out-of-pocket payment poses a greater risk of loss to the poorest populations due to the triple effect of income loss during illness, the high cost of health care, and variations in the prices charged by private providers (Diop and Thabrany, 2000 as cited in Sauerborn, 1994).

CONCEPTUAL FRAMEWORK

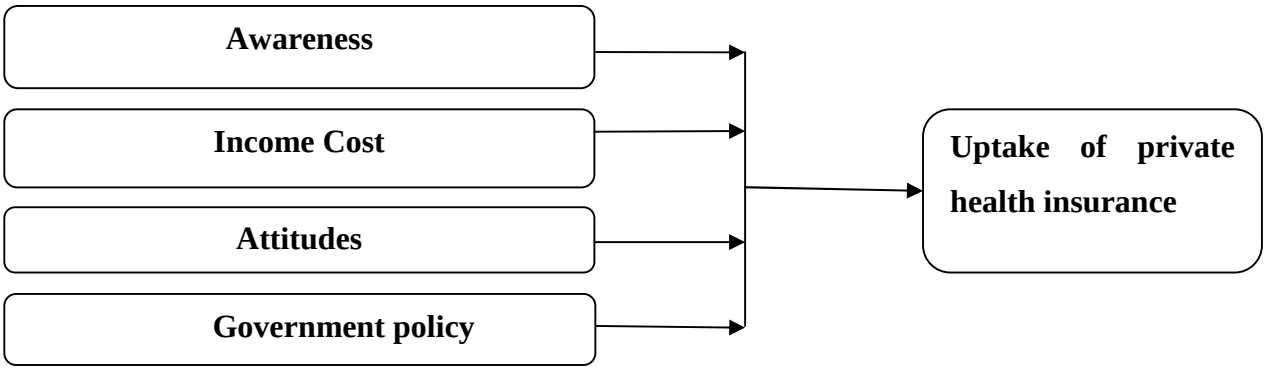

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

This was a descriptive survey study aimed at investigating the factors influencing the uptake of private health insurance in Kenya. The population of interest was all Executive Masters of Business Administration Students at the Jomo Kenyatta University of Agriculture and Technology (J.K.U.A.T) studying at the Kenya Institute of Management (K.I.M) as at June 2013.

The existing cohorts that have undertaken this course at the time of this were 13 Cohorts. The total number of students who have gone through this course in the 13-cohorts was 899 and this with 604 being male and 291 being female. This formed the target population. The study selected 10% of its target population by simple random sampling to select a total of 61 respondents.

The study used questionnaires as a data collection instrument. Both primary and secondary data was collected. Qualitative and quantitative analysis of data was done in order to answer the four research questions of this study. Data collected was analyzed using frequency distribution tables, descriptive statistics and inferential statistics. The SPSS (version 17) computer software was used to aid the analysis as it was more user-friendly and most appropriate for analysis of management related attitudinal responses (Newton and Jeonghun, 2010).

EMPERICAL RESULTS AND DISCUSSIONS

Number of Dependants

According to the findings, 21.6% of the respondents indicated that they had 2 and 4 dependants respectively,17.6% of the respondents indicated that they had only 1 dependant,13.7% % of the respondents indicated that they had 3 and 5 dependants respectively,9.8% didn't have any dependants while 2% of the respondents indicated that they had 10 dependants.

Effect of Awareness on Uptake of Private Health Insurance

On the effect of awareness on uptake of private health insurance, the study sought to establish the level of awareness of private health insurance products. According to the findings, 56.9% of the respondents indicated that the level of awareness was to a moderate extent, 21.6%, to a great extent, 19.6% to a very great extent while 2% to a little extent.

Fear of HIV Screening

According to the findings,76.5% of the respondents indicated that fear of HIV screening affected private health insurance application decision while 23.5% of the respondents indicated that fear of HIV screening didn't affect private health insurance application decision.

Awareness of Innovative Health Insurance Products

From the findings, 62.7% of the respondents indicated that they weren't aware of any innovative private health insurance products designed for the Kenyan market while 37.3% of the respondents indicated that they were aware of innovative private health insurance products designed for the Kenyan market.

Traditional/Cultural Beliefs

From the findings, 60.8% of the respondents indicated that traditional and cultural beliefs didn't affect the uptake of private health insurance in Kenya while 39.2% of the respondents indicated that traditional and cultural beliefs affected the uptake of private health insurance in Kenya.

Penetration of Private Health Insurance Products

The respondents were asked whether in their own observations private health insurance had penetrated rural, periurban and urban populations in Kenya. From the findings above, 82.4% indicated that private health insurance hadn't penetrated rural, peri-urban and urban populations in Kenya, 11.8% indicated that they didn't know whether private health insurance had penetrated rural, peri-urban and urban populations in Kenya while 5.9% indicated that private health insurance had penetrated rural, peri-urban and urban populations in Kenya.

Private Health Insurance Products for Postgraduate Students

The respondents were asked whether they were aware of any private health insurance products designed specifically for postgraduate students in Kenya. Their responses are shown in table 4.10 above. 85.3% said that they weren't aware, 7.8% said that they were aware while 5.9% said that they didn't know whether there were any private health insurance products designed specifically for postgraduate students in Kenya.

Client's Attitude on Uptake of Private Health Insurance

Attitudes towards Health Insurance

From the findings,54.9% of the respondents indicated that the attitude of a client guaranteed that certain behavior will occur after the uptake of private health insurance, 23.5% of the respondents indicated that they didn't know whether the attitude of a client guaranteed that certain behavior will occur after the uptake of private health insurance while 21.6% of the respondents indicated that the attitude of a client didn't guarantee that certain behavior will occur after the uptake of private health insurance.

Causes of Negative Attitudes of E-MBA Students towards Private Health Insurance

From the findings, 64.7% (33) of the respondents indicated that non-payment of claims influenced the attitude of E-MBA students negatively towards private health insurance to a very great extent, 21.6% (11) to a great extent, 5.9% (3) to a moderate extent while 3.9% (2) to a minimal and no extent at all, respectively. Lindsay and Feigenbaum (1984) concluded that one of the major factors people take into considerations when selecting an insurance policy plan is the

payment of claims and thus forms the basis of the attitude towards the insurance provider. With regard to delay in payment of claims 54.9% (28) of the respondents indicated that it influenced the attitude of E-MBA students negatively towards private health insurance to a very great extent, 29.4% (15) to a great extent,7.8% (4) to a moderate extent while 4.0% (2) to a minimal and no extent at all, respectively. Cullis and Jones (1986) highlighted that individuals weigh the cost of waiting on waiting lists against the price of private treatment in formulating their choice of the insurance to take up. With regard to high premiums 66.7% (34) of the respondents indicated that it influenced the attitude of E-MBA students negatively towards private health insurance to a very great extent, 23.5% (12) to a great extent, 5.9% (3) to a moderate extent while 3.9.0% (2) to a minimal extent.

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Household income influence on the uptake of private health insurance

Premiums and Private health Insurance

On whether premiums increased if the household was more risk averse, 29.4% (15) agreed, 27.5% (15) strongly agreed, 15.7% (8) disagreed and strongly disagreed, respectively while 11.8% (6) were neutral. On whether premiums increased with the expected insurance payout, 51% (26) strongly agreed, 31.4% (16) agreed while 5.9% (3) remained neutral, disagreed and strongly disagreed, respectively. On whether premiums increased with the size of the insured risks, 54.9% (28) strongly agreed, 27.5% (14) agreed while 5.9% (3) remained neutral, disagreed and strongly disagreed, respectively .On whether premiums decreased with basic risk,41.2% (21) strongly agreed, 23.5% (12) agreed ,13.7% (7) remained neutral, strongly disagreed ,respectively while 7.8% (4) disagreed.

Purchase of Private Health Insurance

On whether purchase of private health insurance is only necessary if a household is at greater risk of getting sick, 41.2% (21) disagreed, 37.3% (19) strongly disagreed, 11.8% (6) strongly agreed, 5.9 % (3) were neutral while 3.9% (2) agreed. On whether Private Health Insurance premiums should be included in all other insurance packages, 37.3% (19) agreed, 35.3% (18) strongly agreed, 15.7% (8) were neutral, 7.8% (4) disagreed while 3.9% (2) strongly disagreed. On whether the national life expectancy and health status was public information, 33.3% (17) disagreed, 23.5% (12) were neutral, 17.6% (9) strongly disagreed, 13.7 % (7) strongly agreed while 9.8% (5) agreed.

Government policies influence the uptake of private health insurance

According to the findings, 74.5% of the respondents indicated that during illness in the absence of health insurance they could get income from relatives, 21.6% from informal risk sharing while 2% from government handouts and other income generating options, respectively.

Tax Incentives to people who purchase private health insurance

According to the findings,45% of the respondents indicated that they didn't know whether there were tax incentives to individuals who purchased private health insurance products in Kenya while 27.5% of the respondents indicated that they there were and weren't tax incentives to individuals who purchased private health insurance products in Kenya, respectively. These results imply that the respondents lack awareness as far as tax incentive goes.

Government Policy and Health Insurance in Kenya

On whether the Government of Kenya should set up Insurance Exchanges which is a mass market-place where everybody can buy health insurance through a major pool which lowers prices for the premiums, 70.6% (36) strongly agreed, 23.5% (12) agreed while 3.9 %(2) were neutral. On whether cartel-like premium control of health insurance premiums exist in Kenya making private health insurance expensive because of lack of regulation, 64.7% (33) strongly agreed, 19.6% (10) agreed ,11.8 %(6) were neutral while 3.9%(2) strongly disagreed. On whether Kenya has a National Patient's Bill of Rights that ensures that consumers of health products are protected in the health care market, 29.4% (15) were neutral and disagreed, respectively, 25.5% (13) strongly disagreed while 7.8% (4) agreed and strongly agreed, respectively. On whether the government through the Insurance Regulatory Authority (IRA) should control the cost of drugs, laboratory tests, x-ray examinations and surgical procedures with a view to lowering of private health insurance premiums, 62.7% (32) strongly agreed, 21.6% (11) agreed, 11.8% (6) were neutral while 2 % (1) strongly disagreed and disagreed respectively.

Pearsons' Moment of Correlation

The data presented on awareness, income clients attitude and government policies were computed into single variables per factor by obtaining the averages of each factor. Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. The table above indicates the correlation matrix between the factors and uptake of private health insurance. According to the table, there are positive relationship between awareness,

income clients attitude and government policies of magnitude 0.752, 0.681 and 0.694 respectively.

Table 1: Correlation Matrix

		Awareness	Income	Clients attitude	Government policies
Awareness	Pearson Correlation	1			
	Sig. (2-tailed)	.			
Income	Pearson Correlation	.752	1		
	Sig. (2-tailed)	.029	.		
Clients attitude	Pearson Correlation	.681	.523	1	
	Sig. (2-tailed)	.017	.016	.	
Government policies	Pearson Correlation	.694	.743	.597	1
	Sig. (2-tailed)	.031	.012	.028	.

CONCLUSIONS

From the findings, the study concludes that awareness of health insurance packages affects the uptake of private health insurance .The successful implementation of the National Health policy to a large extend depends on the public awareness of the private insurance healthcare providers.

Further, the study concludes that income affects the uptake of private health insurance. Insurance participation with symmetric information, which predicts that a household's willingness to pay for an insurance contract increases if the household is more risk averse; increases with the expected insurance payout; increases with the size of the insured risks; and decreases with basis risk and is dependent on the income of the household.

The study also concludes that clients' attitude affects the uptake of private health insurance. The more favorable private clients' attitude towards private health insurance the higher the usage and the more unfavorable the clients' attitude towards the private health insurance scheme the lower the usage. The attitudes of clients do not guarantee that certain behaviour will occur but they are useful guides to what insurers and their clients are likely to do in certain circumstances.

Finally, the study concludes that government policies influence the uptake of private health insurance. In most developing countries with a lack of formal protection mechanisms, people rely more on out-of pocket payment from personal assets, and help from relatives or informal risk-sharing arrangements available in the community to cover health care costs more than any other source of revenue. A government policy on private health insurance is a government policy that protects individuals against unexpected risks associated with illness.

RECOMMENDATIONS

That the government, the Insurance Regulatory Authority and the insurance industry in Kenya should start a nation-wide campaign to inform and educate the general public about private health insurance in Kenya and counter the negative attitude towards private health insurance. This campaign should extend to our institutions of higher learning as this study also shows that even E-MBA JKCAT have negative attitudes towards private health insurance. From the findings of the study it was evident that majority of the respondents were not aware of the different private insurance schemes available. These campaigns will hopefully encourage more people to join and lead to lower premiums.

That the Kenya government policy towards private health insurance need to be reformed so that private health insurance policy-holders get tax rebates and that those that cover their dependants get an extra tax rebate. This is because private health insurance decreases the pressure on government health institutions in the long run.

That the government should set up a Health Insurance Exchange or pool from where Kenyans can purchase private health insurance as this will help lower the current high premiums. This study also recommends that a mechanism be set up to encourage people purchasing general insurance to also buy private health insurance by giving them some incentives.

That the insurance industry in conjunction with the Insurance Regulatory Authority should come out with more innovative health insurance products that cater for both the high end market and the low end market with a view to increasing enrolment and reducing the premiums. The insurance law needs to be amended to allow for more product innovation and more low cost private health insurance products that will be affordable to most Kenyans.

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