HEALTH MANAGEMENT ORGANIZATIONS.

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PROCESS, PERFORMANCE & INNOVATION:

Challenges of Underwriting Health Insurance Products and Strategy Paradigm in Nigeria

PIXABAY

Abstract

Experts have described health insurance as a process that makes it possible to substitute a small but certain cost (premium) for a large but uncertain loss (claim) under an arrangement in which the healthy majority compensate for the risks and costs of the unfortunate ill minority. The National Health Insurance Scheme (NHIS) regulates health insurance in Nigeria. Twenty HMOs were allotted all the public sector lives by NHIS on or before 2008 leaving over fifty HMOs to struggle for private sector lives in a business landscape where health insurance enrolment is strictly voluntary and product innovation and price/perceived benefits standardization a mirage. As a result, market penetration strategy where price undercutting has become prevalent among HMOs in a private sector market where NHIS, the regulator, displays weak regulation.

This paper examines the challenges of underwriting health insurance products and lays the fundamental towards strategic position, Strategic choices, and implementation of strategy. The paper discusses sustainable competitive strategies using Bowman's Strategic clock and concludes that to significantly reduce/eliminate the price war among HMOs operating in the private sector, process, performance and innovation must be put in perspective by reviewing the current NHIS Act, strengthening the regulatory activities of NHIS, and standardizing the pricing and quality of innovative health insurance products all at the same time.

INTRODUCTION

Background information about Nigeria and Health outcomes

The Global Economy

Global output growth stabilised at 3.3 percent in 2014 due to low oil prices, driven by higher supply arising from shale oil production in the Unites States. Growth in the emerging market and developing economies declined to 4.4 percent in 2014 from 4.7 percent in 2013, due, mainly, to continuing slowdown in China, the weak performance in Russia and other commodity exporters (CBN Annual Report, 2014: 58). Growth in sub-Saharan Africa dropped to 4.8 percent in 2014, from 5.2 percent in 2013. Low oil and commodity prices explained the weak growth in sub-Saharan Africa, leading to a more subdued outlook for Nigeria and South Africa. Inflation moderated in 2014 at 6.7 percent, due, mainly, to the low average price of food and persistent output gaps in the advanced economies. The inflation figures were quite erratic in double digit in Nigeria as from 2015 due to the recession reaching 16 percent in the last quarter of 2016.

Background data and Nigeria Health outcomes

Nigeria, with its population of around 170 million and a population growth rate of 2.5%, is the most populous country in Africa and the 8th most populous in the world. After rebasing, Nigeria is the largest economy in Africa and 26th largest in the world. Nigeria's growth remains strong at 5% per annum. GDP moved by 79% from $285 billion estimates of 2013 to $509 billion in 2014. 130 million Nigerians live below the empowerment line. Life expectancy in Nigeria is 54 years, 630 pregnant women die for every 100,000 live births in Nigeria, and 88 infants die for every 1000 live births. These are poor health indices considering the country's resources.

If state governments play their statutory roles in line with the provisions of the National Health Act of 2014 health outcomes would improve. Meanwhile, the National Health Insurance Scheme Act no. 35 was enacted in 1999 to regulate health insurance in Nigeria but the Act makes enrolment voluntary.

Only 2% of Nigeria's total expenditure on health is currently sourced from risk pooling mechanisms. And only 7 million Nigerians (4 percent) are enrolled in prepaid health insurance programmes of NHIS and HMOs. Meanwhile, 40 million Nigerians are in the consuming-class household that can pay for health insurance. Over 63% of the Nigerian population are 24 years old or below; a youthful population that is highly technology savvy and presents a ready market for health insurance in Nigeria.

HEALTH INSURANCE

Insurance is a risk transfer mechanism wherein the proposer (the insured), agrees to make small periodic payments called premium to another person (the insurer) in return for the payment of a larger sum (benefit) on the occurrence of a specified event (Awosika, 2005: 40).

Kinds of Insurance

Though, Insurance could be classified in three major ways thus: by functions, by main class, and by Statute, the Insurance Act 2003 provides in Section 2 that insurance in Nigeria should be classified as follows, by Statute: Life Insurance and General Insurance businesses. There are three categories of life insurance and these are: individual life insurance business, group life insurance and Pension, and Health Insurance business (CIIN Training Manual: 17)

The HMOs are the major operators of the health insurance business in Nigeria and they engage underwriters to handle the risks corresponding to the risk profile priced for by the actuaries.

Underwriting health insurance products

Underwriting is the function of evaluating the subject of insurance, whether a person, property, profession, business, or other entity, and determining whether to insure it (D & H Investment Trust, California, 2010:4). Underwriting is the foundation of the insurance transaction process.

Upon a thorough examination of all the data, underwriters then assign rates to the application, or decline to issue a policy if it does not meet underwriting standards. This is the major area of conflict between marketing and underwriting.

What is challenge? Challenge is a demanding task or situation (Oxford Dictionary, 2008:234).

Underwriting is very challenging and the following factors are considered during the process of underwriting health insurance, which may be physical or moral risk factors: age, sex, health and health history (may result in adverse selection or moral hazard), financial condition, personal habits such as smoking or drinking alcohol, size of the policy, and current insurance in force.

However, the prime purpose of marketing, for the ideal HMO, should be to increase enrolments so that profits can be generated in order to maximize shareholders wealth. The disagreement between marketing and underwriting widens in most HMOs because of the voluntary nature of health insurance in Nigeria and unstable policy direction by NHIS with respect to product roll outs and regulatory versus operational posture. Price-undercutting has become the order of the day by most HMOs seeking to become market challengers with a view to taking over market leadership. Such HMOs have often based their strategy on increasing market share through market penetration strategy. Only the foremost national HMOs (19 HMOs) that got accredited by NHIS before 2007 had all the public sector lives allocated to them by the NHIS on or before 2008. The only exception is the Police Health Maintenance Limited, accredited recently, that enrolled serving and retired Police officers not previously allocated to any HMO. This latter HMO and 19 others, making the figure 20, enjoy 80 percent combined market share of the health insurance enrolments (both public and private sectors). This leaves the other 50 HMOs with 20 percent market share, mainly private sector enrolments.

A discussion of Strategy is necessary for overcoming the challenges of underwriting experienced by HMOs.

THE STRATEGY PARADIGM

Johnson, Scholes and Whittington (2008:14) have defined Strategy as" the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations". Paradigm is defined as "a conceptual framework, an established thought process or system of assumptions, concepts, values, and practices that constitutes a way of viewing reality" (Oxford Dictionary, 2008).

There are three levels of Strategy thus:Corporate level Strategy – concerned with overall scope of an organization and how value will be added to the different parts (business units) of the organization. Mission statement is a key component of corporate level strategy; Business level Strategy- concerned with how the various businesses included in the Corporate Strategy should compete in their particular markets (hence business level strategy is sometimes called Competitive Strategy); and Functional level Strategy- Concerned with how the component parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people.

Strategists must choose where to concentrate their entities' limited resources. For organizations operating in increasingly competitive markets in the private sector, innovation is often a condition for simple survival (Johnson, Scholes and Whittington, 2008: 326). Innovative ideas of HMOs over time have been eroded by the voluntary nature of enrolment on health insurance programs and the hypercompetitive scenario displayed by the NHIS in becoming an operator rather than regulator.

Hence, HMOs have resolved to go into price war in apparent market penetration strategies (existing products, in existing market segments) to increase their market share. Here lies the failure of innovation in health insurance in Nigeria.

Elements of Strategic management

To improve the current level of strategic management among HMOs in Nigeria, with respect to appropriate underwriting there has to be better understanding of the three elements of strategic management explored in Johnson, Scholes and Whittington model thus Strategic position, strategic choices, and Strategy into action (implementation of strategy) and application of Bowman's Strategic clock.

Strategic Position means making an analysis or assessment of the strategic position of the entity. The three aspects to strategic position are: the environment, strategic capability of the entity, and expectations and purposes.

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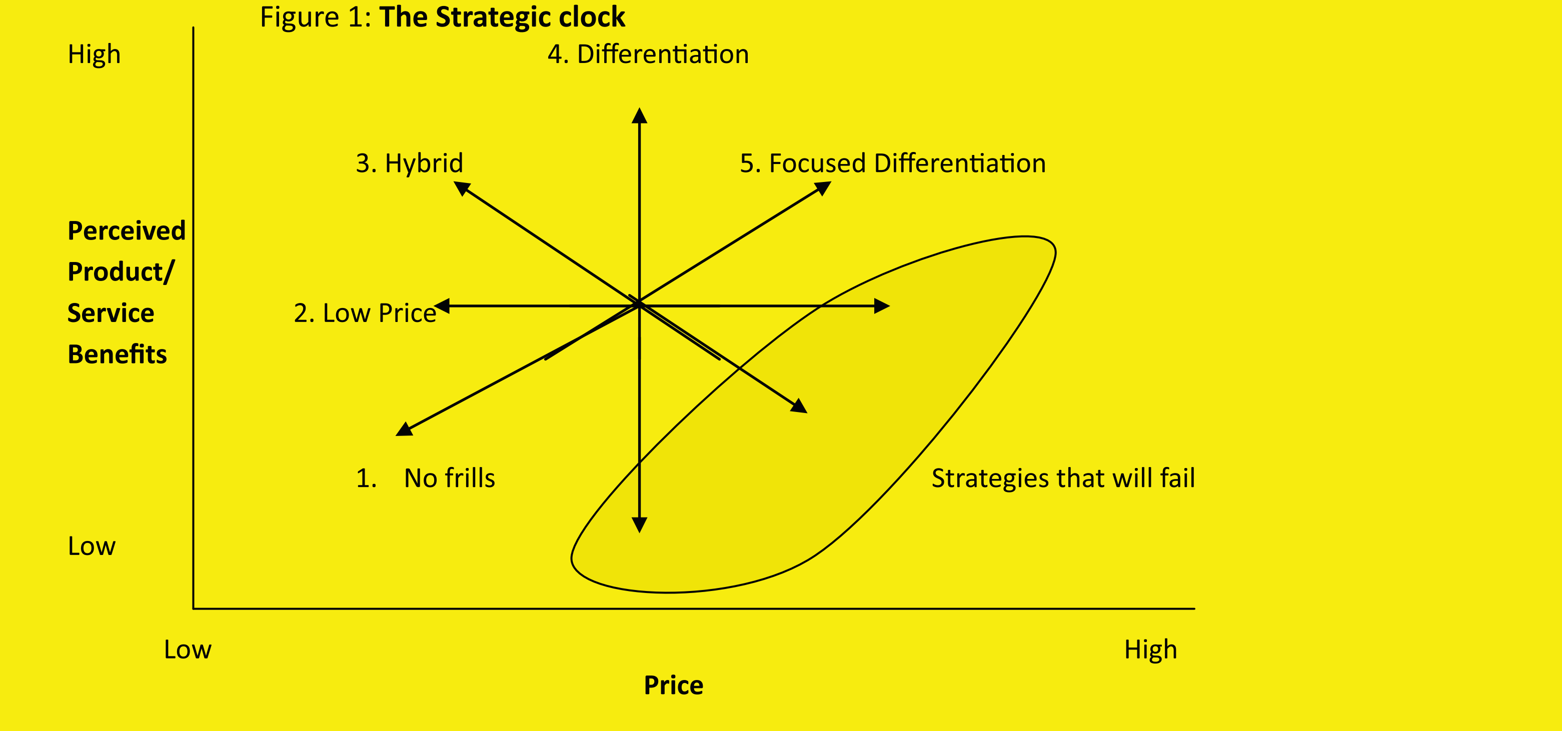
STRATEGIC CHOICES

Strategic choices involve identifying different possible strategies that the entity might adopt, and making a choice of the preferred strategies from the different alternatives that are available. The three aspects to identifying alternative strategies and making strategic choices are: corporate level and international, business level strategies, and development directions and methods. In making strategic choices about its products and markets, senior management of most organisations apply Ansoff product/market matrix in seeking to grow in any of four ways thus: Market penetration (existing products in existing markets), Market development (existing products to new markets),Product development (new products or services in existing markets), or Diversification (new products or services to new markets).
Strategy into action means implementing the chosen strategies. The three aspects to strategy implementation are: Organizing, enabling, and managing change.

The Strategic Clock
The Strategic clock has two dimensions: price and perceived benefits. In the clock both price and perceived benefits can be shown on a scale of 'low' to 'high'. The different business strategies can be grouped into two of eight competitive strategies as shown in figure 1.

Figure 1: **The Strategic clock**



The clock is a useful basis for making an analysis- looking at the business strategies of competitors, and what a company must do to find an appropriate combination of price and perceived benefits that it should offer to customers.

THE FIVE BROAD GROUPS OF BUSINESS STRATEGY THAT MIGHT SUCCEED ARE:

Position 1 – 'No frills' strategy: This is a price-based strategy which combines a low price with low perceived health plan benefits and a focus on a price-sensitive market segment.

Position 3 - The hybrid strategy: A hybrid strategy seeks simultaneously to achieve differentiation and low price relative to competitors. The success of this strategy depends on the ability to deliver enhanced benefits to enrollees together with low prices whilst achieving sufficient margins for reinvestment to maintain and develop

Position 5 - Focused differentiation Strategy: A focused differentiation strategy provides high perceived product/service benefits, typically justifying a substantial price premium, usually to a selected market segment (or niche).

CONCLUSION

As market penetration increases, purchasers' preference for "managed" benefits such as lower costs and higher quality of services begin to drive the market. Underwriters must be able to properly interface with marketers and other HMO personnel to provide the most appropriate product at the right price and the right time through the right channel using the most appropriate communications tools. Marketing must target the young people through the social media and related networks.

The ultimate is to provide access to care for all Nigerians to achieve the country's goal of Universal Health Coverage by the year 2020. Health Insurance premium would become very affordable with larger numbers of subscribers if health insurance enrolment is made mandatory in addition to government involvement in insurance for the informal sector especially the aged, retired, vulnerable and less privileged. Eventually, there would be sustainable competitive advantage for HMOs operating mainly in the private sector market segment and, therefore, improvement in Nigeria's health outcomes. Thus, the current price war among HMOs that operate mainly in the private sector market would have been significantly reduced if not eliminated.

Position 2- Low-price strategy: This is a price-based strategy that seeks to achieve a lower price than competitors whilst maintaining similar perceived health plans or service benefits to those offered by competitors. Increasingly this has been the competitive strategy chosen by most HMOs.

Position 4 – Broad differentiation strategies: These are strategies that provide health plans that offer benefits different from those of competitors and that are widely valued by enrollees. The aim is to achieve competitive advantage by offering better health plans or services at the same price or

Positions 6, 7 and 8 - Failure strategies: A failure strategy is one which does not provide perceived value for money in terms of product features, price or both. So the strategies suggested by positions 6, 7 and 8 in the Strategic clock are probably destined for failure.
These are critical issues for corporate-level strategy as they limit the degree of strategic positioning that an organization can sustain. Hence, the need for HMOs to have a good understanding of the subject: sustaining competitive advantage.

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REFERENCES

REFERENCES AVAILABLE ON REQUEST