National Health Insurance Fund (NHIF) Note

The National Health Insurance Fund, formerly known as the National Hospital Insurance Fund, was established in 1966 through an Act of Parliament. The fund is currently governed by the NHIF Act (1998) which was amended and passed in parliament in December 2021 and assented into law in January 2022. The primary goal of the amendment was to spearhead operationalization of important areas under the NHIF Act, 1998 in order to attain the Universal Health Coverage (UHC). The NHIF Board of Management in consultation with the Cabinet Secretary of Health recently came up with a new proposed draft, the Draft National Health Insurance Fund (NHIF) Amendment Act Regulation, 2023 and invited public participation and feedback. The Act is meant to replace the NHIF Act 1998 (amended in 2022), subject to approval by the Parliament. As such, in this note we shall review the key provisions in the Draft, as well as the potential impacts of the proposed regulations and rates to the contributors. We shall do this by looking into:

I. The Structure and Objectives of the National Health Insurance Fund,
II. Challenges facing the National Health Insurance Fund,
III. The National Health Insurance Fund's Membership and Contributions
IV. National Health Insurance Fund Acts,
V. Recommendations, and,
VI. Conclusion.

Section I: The National Health Insurance Fund (NHIF) Structure and Objectives

The National Health Insurance Fund, formerly known as the National Hospital Insurance Fund, was established in 1966 through an Act of Parliament. The Fund is governed by a Board of Management, as defined in the National Insurance Fund Act, No.9 of 1998, with their role being management, control and administration of the Fund's assets to ensure the Fund achieves its goals and objectives. The day to day management and implementation of policy matters are done by the Chief Executive Officer (CEO).

The Fund's Board of Management is mandated with the following functions and objectives:

i. To receive all the contributions and other payments due to the Fund,
ii. To make payments out of the Fund to the accredited health facilities,
iii. To set criteria for the accreditation of hospitals and to declare such hospitals,
iv. To regulate the contributions payable to the Fund, benefits and other payments to be made out of the Fund,
v. To promote the interest of the contributors of the Fund, and,
vi. To advise on the national policy to be followed with regards to National Health Insurance and implement all government policies.

The NHIF was established with a core mandate of providing affordable medical insurance cover to all Kenyans as well as facilitate access of quality and affordable medical services from medical institutions. The Fund endeavors to achieve this through:

i. Registering and receiving contributions,
ii. Processing payments to accredited health care providers,
iii. Carrying out regular internal accreditation of health facilities,
iv. Contracting health care providers as agents to facilitate the health insurance scheme
v. Protecting the interest of the contributors of the Fund, and,
vi. Advising on the national policy to be followed with regard to National Health Insurance.

Section II: Challenges facing the National Health Insurance Fund (NHIF)

Over the years, the NHIF has encountered various challenges that have hampered its ability to achieve its objectives. Some of the notable challenges include;

i. **High payout ratio** - Despite the fact that NHIF premium contributions have increased over the years, with total contributions to the Fund growing at a 5-year CAGR of 17.6% to Kshs 78.8 bn in FY'2021/2022, from Kshs 35.0 bn in FY'2016/2017, the pay-out to the health care providers has also increased, with benefit pay-out ratio for FY'2021/2022 standing at 90.5%, 15.3% points higher than the 75.2% in FY'2016/2017.

As such, the high pay-out ratio reduces the funds net operating surplus, increasing the Fund's solvency risk and possibility of inability to meets future financial obligations,

ii. **Low Insurance Penetration –** According to the AKI 2021 Insurance Industry report, the insurance penetration rate stood at 2.3% as of 2021. The low insurance penetration in the country is mainly attributed to the fact that insurance is still seen as a luxury and mostly taken when it is necessary or when is a regulatory requirement. Additionally, low disposable income among Kenyans on the back of high cost of living as well high rate of unemployment in the country has hampered insurance uptake,

iii. **Fraudulent Claims** – There have been numerous instances of fraudulent claims, including collaboration between some beneficiaries and health service providers. Additionally, there have been reports of some health service providers participating in altering or falsifying information to increase their payouts from the Fund. Such occurrences have led to increase in claims consequently reducing the net operating surplus of the Fund. Notably, the total claims paid out of the fund increased at a 5-year CAGR of 13.3% to Kshs 71.3 bn in FY'2021/2022, from Kshs 37.2 bn in FY'2016/2017,

iv. **High attrition rate –** The fund has continued to experience a decline in active membership who make monthly contribution due to low retention rates as a result of attrition of informal sector registered members, partly attributable to low disposable income. According to the Ministry of Health Sector report 2021/2022, the Fund's active membership stood at 43.2% of the 15.5 mn registered members in FY'2021/2022, compared to active membership of 89.7% out of the 6.8 mn members in FY'2016/2017,

v. **Rise in cost of medical services** – The cost of medical drugs and procedures has also been on the increase in the wake of the Kenya shilling's depreciation against the dollar forcing healthcare providers to pass the increased cost to insurers and patients who pay out of pockets,

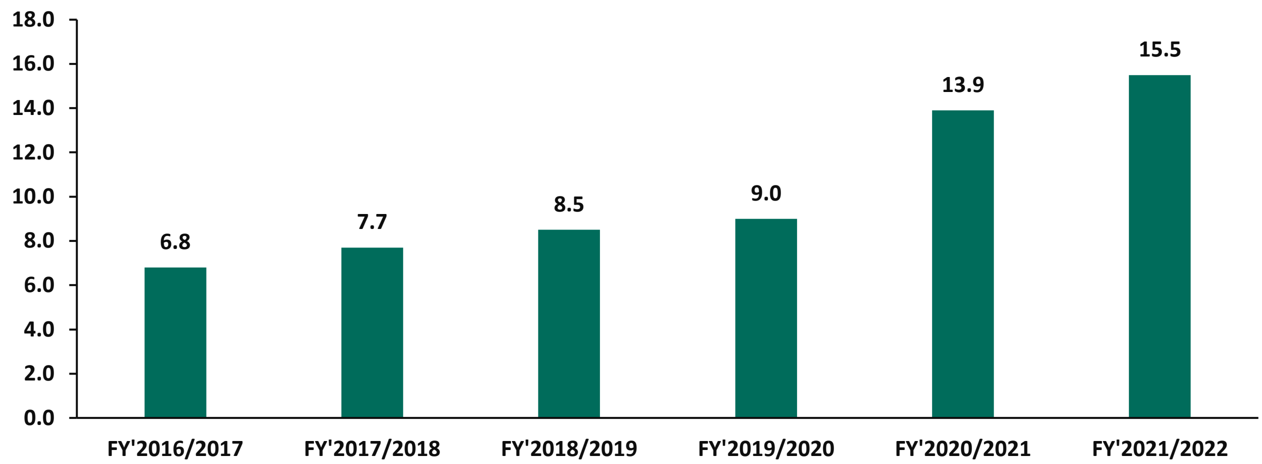
vi. **Delayed Remittances** – The Fund has experiencing delayed remittances of the NHIF contributions by some employers and self-employed individuals. Consequently, this has continued to hinder the Fund's ability to meet its collection targets, and,

vii. **Mismanagement and misappropriation of funds –** There have been cases of corruption and mismanagement of funds at the NHIF. As such, this has hampered the Fund's ability of meeting its objectives with the Fund also witnessing dwindling trust from the contributors.

Section III: The National Health Insurance Fund's Membership and Contributions

Membership in the NHIF is mandatory to all workers in the formal employment, with contributions ranging from Kshs 500 to Kshs 1,700 depending on salary bracket. However, for self-employed and workers in the informal sector, membership is voluntary and they pay a fixed amount of Kshs 500 per month. According to the Ministry of Health Sector working group report 2021-2022, NHIF membership stood at 15.5 mn members with an active membership of 6.7 mn as at 30 June 2022. The chart below shows the evolution of membership since FY'2016/2017:

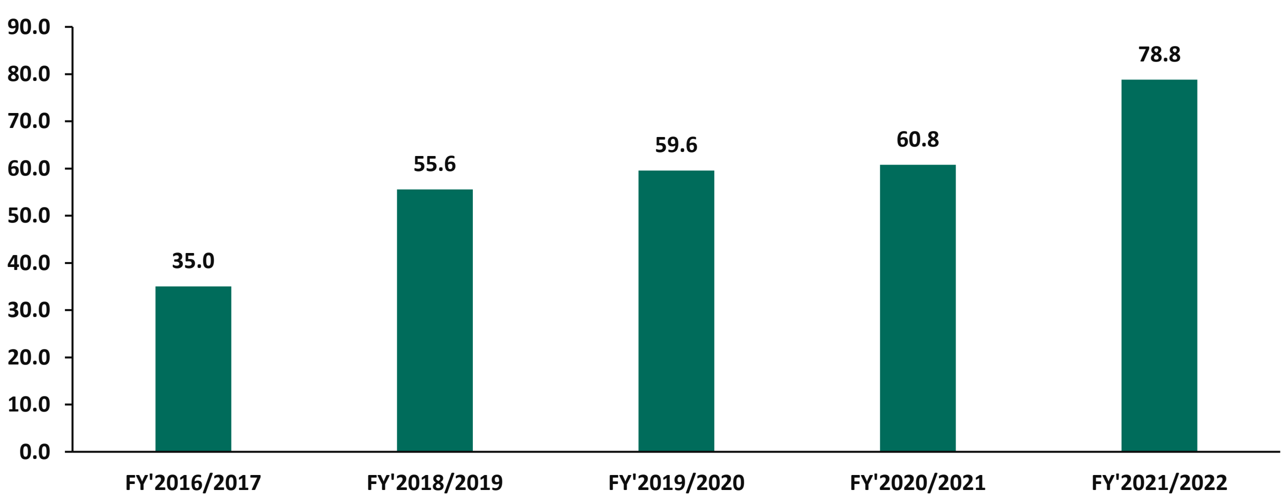
Cytonn Report: Total Membership



Source: Ministry of health Sector working group report

The total contributions made to the Fund have grown at a 5-year CAGR of 17.7% to Kshs 78.8 bn in FY'2021/2022, up from Kshs 35.0 bn collected in FY'2016/2017. This is mainly attributable to the upward revision of workers monthly contribution rates to a scale of between Kshs 500.0 and Kshs 1, 700.0 from Kshs 320.0 in 2018, due to the expansion of benefit package to include outpatient cover, special initiatives such as Health Insurance Subsidy Programme (HISP), Universal Health Care and Linda Mama Programme. The graph below shows the growth of the total contributions to the Fund:

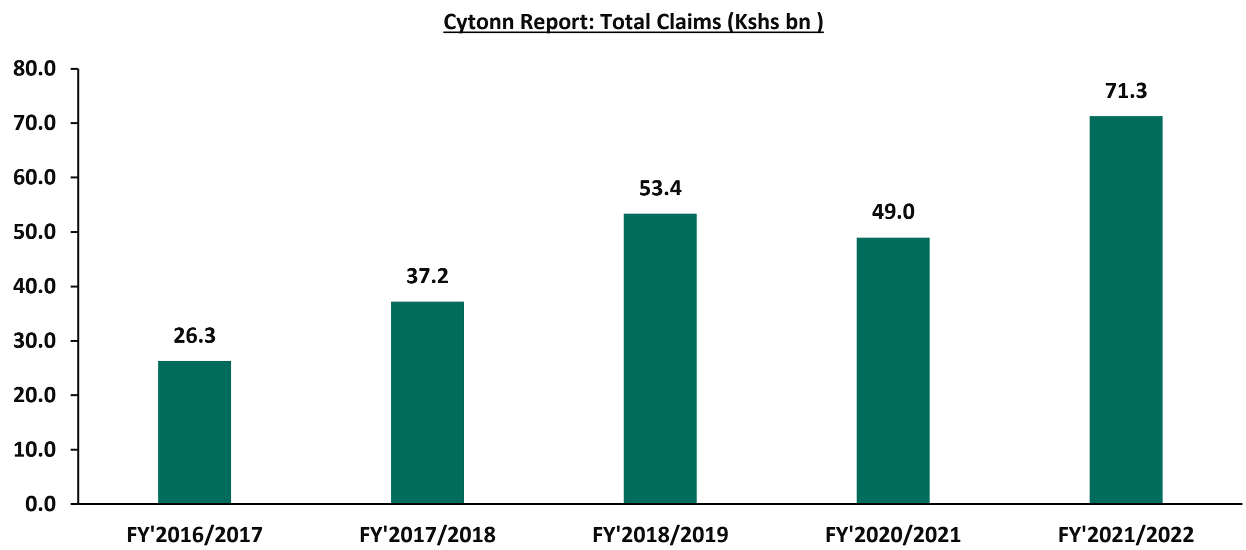
Cytonn Report: Total Contributions (Kshs bn)



Source: Ministry of health Sector working group report

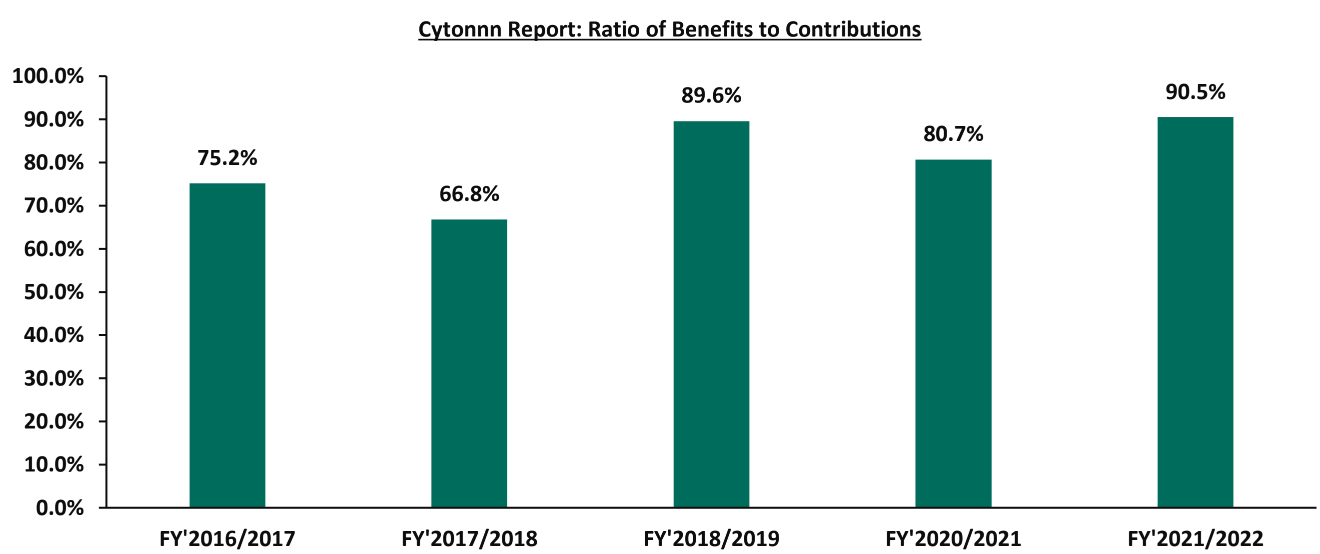
However, in FY'2021/2022 the fund did not meet its collection target of Kshs 90.6 bn, achieving only 88.8% of its target, compared to the 96.4% target achievement recorded in FY'2020/2021. This was attributable to tough macroeconomic environment as a result of the negative effects of COVID-19 pandemic which caused companies to downsize, reduce salaries and some to close. Similarly, the informal sector also experienced financial challenges brought by the negative effects of COVID-19 pandemic which impaired their ability to make voluntary contribution to the fund.

The total claims paid out of the fund have also increased at a 5-year CAGR of 22.1% to Kshs 71.3 bn in FY’2021/2022, from Kshs 26.3 bn in FY’2016/2017, mainly attributable to increased uptake of outpatient cover and special cover packages. The graph below shows the growth of the total claims paid out of the Fund:



Source: Ministry of health Sector working group report

Despite the significant growth in the total membership contributions, the growth of the total claims paid continue to weigh down on the net contributions retained in the fund. Notably in FY’2021/2022, the claim ratio was at its peak, coming in at 90.5%, representing 9.8% points increase from the 80.7% ratio recorded in FY’2020/2021. The increase was mainly as a result of the high uptake of outpatient cover and special cover packages, partly due to prevalence of chronic diseases. Below is the graph showing the movement of the benefits to contribution ratios over the years:



Source: Ministry of health Sector working group report

Section IV: National Health Insurance Fund Acts

NHIF Act 1998 is the principal statute that governs the NHIF, with the Act having been amended severally to accommodate the changing health care need of the Kenyan population as well as lessen the restrictions in the health sector. The main focus of the continued amendment has been to operationalize key areas under the NHIF Act 1998 in order to attain the Universal Health Coverage (UHC) through removal of financial barriers. Key reforms that have since been implemented to enhance capacity of the NHIF to effectively deliver its mandate include;

i. Upward revision of workers monthly contribution rates to a scale of between Kshs 500.0 and Kshs 1, 700.0 from Kshs 320.0 in 2018,
ii. Expansion of the NHIF benefit package to also accommodate the outpatient care services from the previous restriction of just offering inpatient services only,
iii. Amendment of the NHIF Act to outline appropriate legal framework for UHC implementation, such as digitization of the processes in order to scale up UHC as well as introduction of additional benefits,
iv. Expansion of empaneled healthcare providers network to ensure members have easy access to affordable and quality health services, and,
v. Implementation of biometric registration and identification of NHIF beneficiaries to enhance convenience for members seeking services and also reduce medical fraud.

a) The National Health Insurance Fund Act, Regulations, 2022

The NHIF Act 1998 was subjected to several amendments and passed in parliament in December 2021 and assented into law in January 2022 and was referred to the National Health Insurance Fund Act, Regulations, 2022. The regulations sought to:

i. Prescribe the mode of identification of beneficiaries for purposes of fulfilling goals of the fund,
ii. Ensure that every person of 18 years and above and is a Kenyan resident is registered member of the Fund,
iii. Define the different types of contributions to be made to the Fund, and,
iv. Provide for benefit entitlements to members and their beneficiaries and the payment of claims to healthcare providers.

Key provisions in the NHIF Amendments 2022 included;

i. The draft had proposed to maintain the current contributions of between kshs 150 and kshs 1600 for individual in salaried employment earning up to Kshs 99,999,
ii. For salaried individuals earning gross income of Kshs 100,000 and above, they were to be subjected to a monthly contribution rate of 1.7%, in contrast to the current flat rate of Kshs 1,700 per month,
iii. For the individual identified under the indigents and vulnerable group, the government committed to pay Kshs 500.0 per month on their behalf, and,
iv. Other contributors not employed or listed as an indigent or vulnerable person were to pay a monthly contribution rate of Kshs 500.0.

b) The National Health Insurance Fund Regulations, 2023

Following the recently release of the proposed amendments to the current Act, the NHIF has invited public participation and feedback on the Draft National Health Insurance Fund (NHIF) Amendment Act Regulation, 2023. The draft is meant to replace the NHIF Act 1998 (amended in 2022) subject to approval by the Parliament.

The Key provisions that have been proposed include;

i. There will be a standard contribution rate of 2.75% of the gross monthly income for a person in salaried employment. This will be in contrast with the current Act in which individuals in formal employment are contributing between Kshs 150 to Kshs 1700 based on their monthly salary while individuals in the informal employment are paying a flat rate of kshs 500.0,
ii. For the self-employed person, they will be subjected to a special contribution at a rate of 2.75% of the declared or assessed gross monthly income. The minimum contribution for a self-employed member will not fall below Kshs 300,
iii. The national government commit to pay Kshs 13,300 monthly on behalf of indigent and vulnerable persons,
iv. Other contributors not employed or listed as an indigent or vulnerable person shall pay a monthly contribution of Kshs 1000.0, as opposed to the Kshs 500.0 proposed in the draft regulations 2022, and,

v. The proposed regulation reduces the period for access to benefit after registration to 60 days as opposed to the current 90 days.

Comparison between the Current and Proposed NHIF rates

The proposed regulations will see a drop in contributions for individuals earning less than kshs 30,000.0 per month, while an increase for persons earning Kshs 30,000.0 and above per month. The table below shows the comparison of current and proposed rates for members for the select income bracket;

Cytonn Report: Current and Proposed NHIF Rates		
Employee Gross monthly Income per month(Kshs)	Current Rate (Kshs)	Proposed Rate (2.75% of the Gross Salary) (Kshs)
15, 000.0 - 19,999.0	600.0	412.5 - 550.0
25,000.0 – 29,999.0	850.0	687.5 – 825.0
35,000.0 - 39, 999.0	950.0	962.5 – 1,100.0
45,000.0 - 49,999.0	1,100.0	1,237.5 - 1,375.0
60,000.0 - 69,999.0	1,300.0	1,650.0 - 1,925.0
80,000 .0 - 89,999.0	1,600.0	2,200.0 - 2,475.0
100,000.0 - 200,000.0	1,700.0	2,750.0 - 5,500.0
300,000.0 - 500,000.0	1,700.0	8,250.0 - 13,750.0

Source: Cytonn Research

Key take outs from the above table;

i. Individuals earning less than Kshs 30,000 per month will have their contributions dropping by between 2.9% and 40.0% per month,
ii. Individuals earning over Kshs 100,000 will see an increase to over Kshs 2,700.0 per month contributions from the current flat rate of Kshs 1,700.0, and,
iii. For persons earning Kshs 500,00.0 per month, their contribution will rise 7 times to Kshs 13,750.0. from the current flat rate of Kshs 1,700.0 per month

Some of the impacts of the proposed regulations and rates on contributors include;

i. **Increase affordability by low income earners:** Under the proposed regulations the required monthly contributions from low income earners will drop. As such, this is expected to increase affordability to many people with low income in both formal and informal employment, and,
ii. **Increased burden for high income earners:** The proposed regulation will see the contributions from high income earners significantly increase. This is likely to add burden and reduce disposal income among the earners under those brackets,
iii. **Increased cost to the government:** The government's committing to increase its monthly contribution for the indigent and vulnerable persons, will strain on its expenditure given the government has been recording a budget deficit occasioned by low revenue collection and high expenses.

Section V: Recommendations

Despite the challenges the NHIF faces in achieving its objectives, the Fund's Board of Management in collaboration with the Health care service providers can work together to address these challenges. Some of the actionable steps that can be taken include;

i. **Improve Infrastructure of Public Hospitals:** The government should invest in facilities in public hospitals to ensure they offer quality services, given majority of individuals in rural areas access health services from public hospitals due to difficulty in accessing private hospitals,
ii. **Government should consider and implements views of the general public:** By considering and implementing public views on the proposed regulations, it will help to improve the members' acceptance of the contribution rates,

iii. **Improve governance of the Fund:** The government should ensure that the fund is professionally managed and free from political interference in order. This will aid the Fund in achieving its objective as well as increase confidence of citizens towards the Fund and consequently lower attrition rates.

Section VI: Conclusion

The propose amendment is a commendable step in promoting equitable contribution mechanism among earners in various income brackets. As such, we are of the view that if the proposed amendment will be passed and approved by the Parliament, it will increase affordability among low income earners and consequently enhance the Fund's ability to achieve its objective of providing medical cover to Kenyans. However, for high income earners especially those in formal employment, it will be another added burden given the recent increase in National Social Security Fund (NSSF) rates as well as the proposed increase in income tax in the Finance Bill 2023. Consequently, this is expected to reduce disposable income at a point when people are battling with the high cost of living as a results high cost of essential goods and services. Further, the government's commitment to increase its monthly contribution for the indigent and vulnerable people is expected to weigh on government expenditure given the low revenue collection.