COMMENTARY

FINANCIAL VIABILITY OF DISTRICT MUTUAL HEALTH INSURANCE

Healthcare systems in many developing countries do not have enough healthcare providers or healthcare facilities to service their populations. In recent times, nations and groups are setting up health insurance programmes as one way of addressing the myriad of problems that confront healthcare delivery. Develtere et al., discussed the role of mutual health insurance in helping address the situation.[1] They drew heavily on the 2003 seminar organised by the Belgian Raiffeisen Foundation, titled *Mutual Health Insurance – In Search of Success Factors Learned Through Belgian Field Experience in Developing Countries.*[2] They concluded that it is best to look at such insurance institutions as affording social protection in the health care sector. On financial viability, they argued that it is important for such institutions to find the right balance between individual contributions and refunds to service providers. Building up reserves against "rainy" days is also important, as is re-insurance.

In this issue Yevutsey and Aikins[3] set out to investigate the financial viability of two district mutual health insurance schemes in Ghana. They argued that financial viability depends on ability to generate revenue to meet financial obligations and that it is a balance between income (revenue) and expenditure. Their analysis involved annual assessment of the revenues and expenditures of the two schemes from 2005 to 2007. Data on the revenues and expenditures were all obtained from hospital records. The performance indicators used are the expense ratio (ratio of administrative costs to total premium collected from the informal sector) and claims ratio (healthcare claims to total premium collected from the informal sector).

In more general terms, one would want to broaden the concept of financial viability to include ability to generate sufficient revenues to meet healthcare claim expenses, administrative expenses, other operating expenses, debt commitments, if any, and, to allow for growth in service provision while maintaining service levels. The question of allowing for growth is important when one realizes that only 40% of the population in one district is covered (73% in the other).

One would also have wished that assessment of financial viability had been based on audited financial statements and (business) plans including budget and financial projections about how coverage would be extended to the rest of the population in the two districts. The business plan will provide insights into the provider's resource management, growth plans, capital structure and liquidity among others.

In assessing financial viability, it is also important to consider both short-term and longer-term viability. Short-term viability has to do with ability to meet short-term commitments as they fall due, while longer-term financial viability concerns the ability to meet future financial obligations as they fall due.

Data permitting, a more complete picture of financial viability is obtained when the following are considered, among others:

- History and management: Traditional and future clients of the healthcare provider; financial and management policies adopted by the provider and the provider's business risks and risk mitigation strategies;
- Operating environment: The strategic response of management to factors operating within that environment and the impact of those strategies on the scale of the operation;
- Financial performance; excess of revenues over expenditures, and efficiency of service delivery, after removing the impact of grants and other one-time effects;
- Capital structure and debt management

All the same, the paper presents a good indication of the financial standing of the two schemes.

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