Health insurance in Saudi Arabia
Consistent growth under watchful regulations

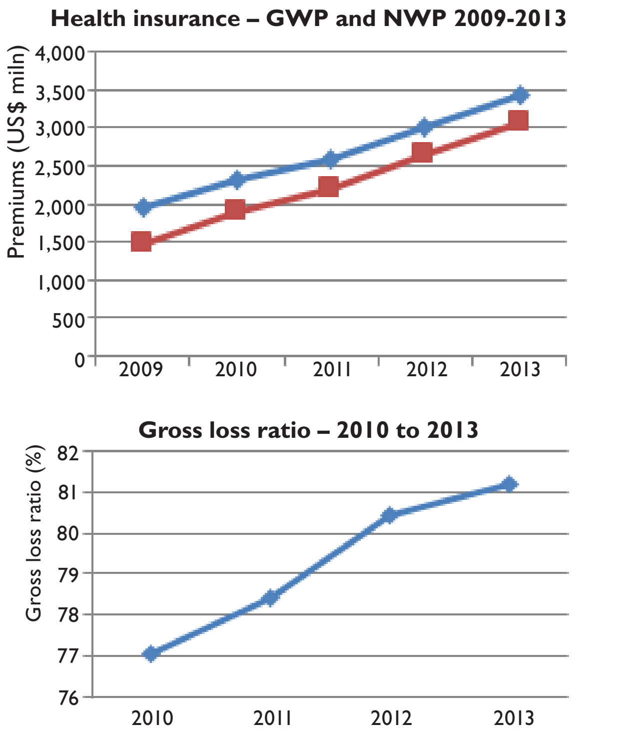
Saudi Arabia's private health insurance market is one of the most robust in the Middle East. **Dr Dennis Sebastian** of **RGA Reinsurance Company Middle East** looks at how upcoming new regulations might impact that market's growth.

Saudi Arabia's overall insurance market has seen significant growth and expansion over the last several years. GWP across all lines of business in 2013 was US$6.5 billion, a 16% increase from 2012, and is anticipated to reach $9.23 billion by 2015 – an estimated compound annual growth rate (CAGR) of 20% for the three-year period.

Health insurance – at least since 2007 – has been the country's fastest-growth insurance market. In 2013, total health insurance GWP was $3.4 billion, accounting for approximately 51% of all premium, and in 2015 is expected to reach $5.70 billion.

Bottom-line growth in this sector, however, has had some difficulties. Gross loss ratios have ticked steadily upward over the past few years, with 2013's ratio of slightly over 81% more than four percentage points higher than 2010's 77%. Factoring into this rise were high, unregulated cost increases from medical service providers; stricter enforcement of reserving policies; and high utilisation levels.

Figure 1: Growth and gross loss ratios



Sources: SAMA 2013 report, RGA

Still, the introduction of compulsory health insurance for domestic workers who are foreign nationals, a cohort that comprises nearly 20% of the eight million working expatriates in Saudi Arabia, and for all Saudi nationals, who comprise 60% of the total population, along with additional regulatory changes, could be strong future growth drivers.

Early years

Saudi Arabia's private health insurance market was launched in 1991, when health insurance was made mandatory by law for all employers, including private companies. Then, in 1999, the passage of the Cooperative Health Insurance Law created the Council of Cooperative Health Insurance (CCHI) as the regulatory body with authority over regulation of health insurance companies and of health insurance products provided by general insurance companies. The law also ensured the provision of cooperative health insurance coverage to expatriates and their families, putting into place the requirement of proof of insurance for sponsored expatriates to receive residence permits.

In 2003, the Cooperative Insurance Companies Control Law was enacted, which gave the Saudi Arabian Monetary Agency (SAMA), the country's central bank, responsibility for regulating and supervising the entire insurance industry. CCHI is the regulatory authority for the health insurance segment, and regulates insurance companies, healthcare service providers and businesses that provide healthcare. Then, in 2009, the Implementing Regulations of the Cooperative Health Insurance Law were enacted, which extended compulsory private health insurance to Saudi national private-sector workers.

Not surprisingly, this huge expansion of the private health insurance market ramped up competition substantially, which caused the very fragmented Saudi healthcare market to experience both fast-rising costs and intense price wars. Health insurers focussed very aggressively on top-line growth, particularly at renewal. In addition, no controls or regulations existed to govern how fast or by how much healthcare service providers could increase prices. As demand for services was far outpacing supply due to high utilization, providers were asking for, and receiving, sizable annual cost increases – some as high as 60%.

In recent years, the Kingdom has made substantial investments into improving its healthcare capacity. A 10-year strategic plan launched by the Ministry of Health in 2010 is funding an expansion of the country's medical care infrastructure, making major investment in building new hospitals, centres for healthcare and specialised medical care, establishing and expanding regional "medical cities", strengthening medical service programmes throughout the country, and investing both in building medical schools and supporting Saudi medical students receiving training overseas. As the Saudi population continues to grow, and mortality and morbidity patterns evolve, private health insurance presents both challenges and opportunities.

The market today

Today, private health insurance coverage accounts for 20% of the Saudi health insurance market, and the government provides the remainder. Three health insurance providers – Tawuniya, a cooperative insurer; Medgulf Group, a mutual; and Bupa Arabia, a subsidiary of UK-based Bupa Global – currently hold approximately 75% of Saudi Arabia's private health insurance market.

Disease patterns have been shifting in the country, with the most visible being the rise in non-communicable diseases, driven by lifestyle changes. Currently, non-communicable diseases account for 72% of mortality, of which 42% is due to cardiovascular diseases. Diabetes prevalence is among the highest in the world: 2013's 23.9 prevalence level made Saudi Arabia one of the top 10 countries in the world for diabetes prevalence. Poor diets, including high carbohydrate, sugar and red meat consumption, as well as sedentary lifestyles are exacerbating the country's high levels of obesity: a 2013 article in the Saudi Gazette reported that 72.4% of Saudis over age 40 (and 35.6% of the total population) are medically obese.

High losses due to continued high care costs and high utilisation levels are still an issue for Saudi Arabia's health insurance sector. Currently available products still do not have cost containment or utilisation controls built in, so claims as well as charges incurred have been rising steadily.

Advances in medical equipment, diagnostics and care, as in other countries, have also contributed to high care costs. Outcomes of care are also not yet well tracked, and private health insurers do not yet provide initiatives to promote wellness or chronic disease management.

In health insurance, every penny saved is critical, and adds value to the bottom line. However, in Saudi Arabia, the business model of third-party administrators (TPA) is volume-driven. TPA revenue sources include membership fees, referral rates, and discounts for early payments, large claims and volume, and might not stream through to the risk carriers, which would impact claims ratios and, ultimately, gross and net loss ratios.

Key changes expected

By 2012, it had become abundantly clear that policy underpricing and rapidly rising care costs were negatively impacting the health of the Saudi health insurance industry. Additionally, with the imminent introduction of Diagnosis Related Group (DRG) pricing and later plans to introduce private coverage for pilgrims undertaking hajj, strategies such as unbundling coverages and upcoding might be issues for fraud management and further rising costs in the near future.

SAMA has issued a detailed best practice document for underwriting health insurance that was implemented in June 2014. Both SAMA and CCHI have also introduced policy reforms, monitoring and strict enforcement, including penalties for late payment of premiums, which are expected to ensure better and more timely premium flows.

Among its other measures were:

- Compulsory actuarial rating and portfolio reporting, requiring insurance companies to price health insurance according to externally-endorsed actuarial rates and methods;
- Ongoing oversight by capital markets authorities of insurer capitalisation;
- Requirement that senior staff members at all insurance companies to be insurance-qualified; and
- Requirement that doctors working in the health insurance industry be licensed and registered with the Ministry of Health.

CCHI also initiated the Saudi Health Insurance Bus (SHIB) project in 2012, a three-phase 36-month endeavour. The project is focussed on enhancing healthcare delivery by strengthening quality of delivery as well as enhancing and strengthening health insurance regulation. One of its endeavours currently under way is the building of an eHealth information system, an electronic integrated platform that will connect technologically all health insurance stakeholders, from hospitals and primary healthcare centres to patient record-keeping systems, throughout the country.

Changes that could drive growth

Some changes that could promote growth and profitability in Saudi Arabia's health insurance market are:

- Continue to make firm progress on initiatives to embed foreign nationals, including domestic workers, into the private health insurance system;
- Accelerate the privatisation of public-sector health insurance providers;
- Focus on market growth through enhanced benefits and value-added services;
- Support CCHI in implementing the SHIB project;
- Foster consolidation among smaller health insurers to achieve better economies of scale and enhance profitability by strengthening negotiating power with providers, controlling escalating operating costs, and improving cooperation;
- Improve accountability of care, starting with services where outcomes can be measured, such as diagnostics, lab tests and prescription medicines; and
- Introduce a centralised Pharmacy Benefit Management module, with products developed around access to tiered formularies.

Over the past 20 years, comprehensive health insurance regulation has dramatically reshaped the Saudi market, ultimately bringing it equivalent to global standards. With SAMA and CCHI actively continuing to pursue, implement and monitor market reforms, the Saudi market today offers greater comfort to health insurance stakeholders. The drive to strengthen and enhance healthcare across all providers, from accreditation and standardised best practices to guidelines for insurers, service providers and administrators, is exemplary for the GCC region.

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