POLICY PAPER

NOWHERE TO HEAL: THE GROWING LUXURY OF MEDICAL COVER IN LEBANON

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BROADENING PRIVATE INSURANCE AHEAD OF UNIVERSAL HEALTH CARE

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EXECUTIVE SUMMARY

Amidst Lebanon's economic crisis, it has become unaffordable for most people to get sick. Across the country, ordinary Lebanese can no longer afford to pay medical bills, which are now almost entirely denominated in cash US Dollars. Even before the financial crisis, about half of Lebanon's population was not covered for health care, whether private or public.[1] Yet the alarming lack of coverage even extends to most people *with* insurance. State-run schemes, including the National Social Security Fund (NSSF), can no longer afford to cover overwhelming medical costs in foreign currency. Households now face grim choices for their ill relatives, staring down financial ruin or fighting illness unassisted.

To make matters worse, private health insurance – the country's sole remaining source of basic healthcare coverage[2] – has become even more exclusive than ever. In the absence of adequate industry regulation, some policyholders who thought they were insured, found themselves paying large out-of-pocket expenses for hospital treatment for which they were covered in Lebanese lira. But the pricing tango between the hospitals and the insurance companies is coming to an end. As of May 2022, private hospitals will only accept patients who can pay for their bill in cash USD, to meet the hospital's expenses. Following suit, insurance companies are moving towards fully dollarizing the industry. Yet, in another twist of the knife, Triangle's calculations have found that insurance premiums are now on average at least 25% overpriced.

In truth, however, Lebanon's healthcare collapse has merely lain bare systemic deficiencies that went unremedied for too long. In the 1960s, Lebanon introduced the NSSF with the aim of providing universal health coverage. By the time that the country emerged from civil war during the 1990s, state-run healthcare schemes had been hollowed out, providing woeful safety nets and scant coverage. Instead, post-war Lebanon relied unhealthily on private health insurance providers and mutual funds, which catered to the wealthier in the country. For many Lebanese, fearing medical bills is not a new phenomenon – the stakes have just risen even higher.

Lebanon needs immediate solutions for the healthcare coverage vacuum. At the present moment, private health insurance sector, despite its glaring deficiencies, offers the only viable option for ensuring basic access to healthcare. The government must regulate insurance companies to expand coverage under private schemes, especially by facilitating greater product diversification and enhanced market monitoring tools. The state should also introduce an expert independent committee to study pricing practices amongst insurers and reduce taxes on insurance products, which currently drive up premium rates.

Ultimately, Lebanon has no long-term alternative to implementing a comprehensive universal healthcare system, which at last consolidates Lebanon's fragmented health sector. It is a right that must be worked towards urgently, especially given the public health challenges that lay ahead, such as the country's aging population and high rates of chronic non-communicable diseases.[3] With this system in place, private insurers can assume their proper market role: a luxury, supplementary product for consumers who are willing to pay extra for specialised care. Only then can Lebanon credibly claim to treat access to healthcare as a basic human right, as opposed to a plaything of the privileged few.

FROM HUMAN RIGHT TO LUXURY

By 2022, a longstanding, disturbing reality has become undeniable: in Lebanon, basic healthcare is now officially a luxury. The country's unprecedented economic crisis has gutted key medical coverage sources on which most Lebanese previously relied. By mid-2021, Banque du Liban (BDL) could no longer provide importers with US dollars for medical equipment and supplies, and medications.[4] As a result, hospitals and ambulatory care centres started demanding payment partly in Lollars, partly in cash US Dollars. This policy has exponentially increased medical insurance claim expenses since medical equipment, supplies and medications account for a large percentage of those expenses. At the same time, the Lebanese Lira's (LBP) devaluation has slashed the true value of LBP deposits that bankroll the public NSSF, as well as targeted schemes for public servants and military staff. Dependents on these state-run schemes must now pay out-of-pocket health expenses, with their source of insurance now reduced to very little. Of course, the same financial hardship faces the half of Lebanese who did not have any healthcare coverage before the economic crisis, and must now desperately seek funds for treatment. Yet, in the current financial climate, these funds are becoming increasingly hard to get for low-income families, whose wages are now a fraction of what they used to be.

Lebanon's economic collapse has also impacted the one potential source of continued basic healthcare coverage: private health insurance. Before October 2019, less than 20% of Lebanese relied exclusively on private insurers (including mutual funds) and around 10% benefited from complementary private coverage to the NSSF (CO-NSSF). There are currently 48 licensed private insurance companies whose total medical portfolio amounted to USD 526 million pre-crisis.[5] The market is highly concentrated, whereby the top 10 insurers have control of 80% of the market premiums. As the economic crisis took hold, many problems arose between insurers and medical providers about billing arrangements. Private insurance companies started adopting unorthodox approaches to compensate for the rise in medical costs through multiple currency exchange rates. Instead of taking the responsibility of managing the risk, some insurance companies illegally shifted the burden onto their policyholders who, legally, should have been fully covered – regardless of currency fluctuations. Some insurers started asking their customers to pay a certain portion of the premium in USD cheques, which quickly rose to 100%. The private health insurance sector – already the preserve of wealthier Lebanese before the crisis – had become even more exclusive.

Accordingly, Lebanese private health insurers have continued pricing their products as luxury items, without indexing premium rates for inflation. Before the crisis, a middle-aged family of four would had to fork out three quarters of the minimum wage - 675,000 LL per month – for second class hospitalisation cover.[6] The situation grows even more depressing for elderly couples, which face greater average health risks and therefore must pay higher insurance premiums. For the same in-hospital and outpatient coverage - covering about 85% of the cost of ambulatory care - an elderly couple, aged 75

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"In Lebanon's ongoing healthcare collapse, private insurers have demonstrated the fundamental weaknesses of the nation's medical safety nets."

and 65 respectively, would need to spend almost two times the minimum wage. First class health coverage – a room with one bed instead of two – was even further out of reach. A family of four would need an entire minimum wage to cover its costs, and an elderly couple about three times the minimum wage. Today, those premium amounts have dropped, with an overall reduction of about 30% compared with pre-crisis prices. Now private health insurance is virtually inaccessible to those without reliable income denominated in cash US Dollars, given the 95% devaluation of the Lebanese Lira, making the minimum salary worth only about $33.

Furthermore, statistical analysis reveals that private health insurance companies have opportunistically increased their profit margins by at least one-quarter during Lebanon's economic crisis.[7] Determining this artificial price hike stems from two main conditions. First, as of May 2022, hospitals will charge for their medical services in cash USD at only about 50% to 70% of their pre-crisis levels[8] whereby insurance companies have kept their medical insurance prices at 70% of their pre-crisis levels. Second, the frequency of healthcare claims – i.e. how many claims are made on average by an insured person per year - has dropped significantly during the COVID-19 pandemic and associated public lockdowns. More insurance claims mean a higher risk for insurance companies, and therefore the price of premiums increase. Yet, until now, the frequency of claims has not returned to pre-crisis levels, with the drop estimated at around 20% for 2022. Based on these calculations, premium rates should not exceed 50-60% their pre-crisis levels to maintain the same profit margin as before. While observers expect premium rates to drop with the likely contraction of Lebanon's private health insurance sector, for now Lebanese policyholders are paying inflated premiums by at least 25%.

In Lebanon's ongoing healthcare collapse, private insurers have demonstrated the fundamental weaknesses of the nation's medical safety nets. Within the private sector, customers might well complain at the insipid performance of the Insurance Control Commission (ICC), a regulatory body within the Minister of Economy and Trade, which is supposed to be the industry's watchdog. In an interview with Triangle, the ICC's head offered that it was not the private insurance companies' duty to fix the healthcare system, nor Lebanon's currency issues. Private insurance brokers defended the higher premium prices, noting that insurance was all about managing future risks; therefore, in uncertain times, it was wiser to increase premiums now. Irrespective of these arguments, higher premiums mean that even fewer Lebanese can afford healthcare. And in these circumstances, terrifying decisions loom large over the uninsured: to bankrupt an entire household or to die at home, without medical care.

LEBANON'S SHATTERED HEALTH SYSTEM

In truth, however, Lebanon's inadequate healthcare coverage long pre-dated today's economic crisis. In the 1960s, the country witnessed a brief state-led period of social development with the establishment of the NSSF by President Fouad Chehab, which aimed to provide universal insurance coverage. All hopes were dashed

with the outbreak of the Lebanese civil war in 1975 which lasted until 1990. When it came time came to rebuild the state after the war, Lebanon's neoliberal political and economic strategies relied instead on a rentier model, which eroded the ideas from the Chehab era. As a result, private companies stepped in to provide the health services which the government's weakened institutional and financial capacity struggled to match.[9] The private insurance industry boomed during the 1990s, filling the vacuum left by the public sector's wide financing gaps. Between 1991 and 2000, insurance premiums increased massively from $57 million to $335 million.[10]

These developments meant that, in post-war Lebanon, residents needed to navigate a complex and fragmented health care system to secure reasonable healthcare coverage. When someone gets sick, the health insurance coverage will largely depend on the patient's profession, level of income, nationality, and social status. Private health insurance policyholders were historically split between middle-to-high income households and employees and their dependents under group plans which supplement state-mandated NSSF membership with private coverage. Private insurance companies only face direct competition from mutual societies, which typically provide healthcare support to lower-income families from defined social groups (See Box).

"The private insurance industry boomed during the 1990s, filling the vacuum left by the public sector's wide financing gaps."

Lebanon's remaining insured rely on government schemes like the NSSF, which are meant to cover all employees in the formal sector and their dependents. The NSSF also cares for special groups such as taxi drivers, doctors, newspaper sellers, students, and mayors. Foreign workers only qualify for the NSSF if they have a valid work permit and their home country offers reciprocal coverage to Lebanese citizens.[11] While it is supposed to be mandatory, the NSSF has many weaknesses and notorious coverage gaps which has left many Lebanese medically uninsured.[12] Other government schemes include the Civil Servants Cooperative (CSC), catering mostly to regular government staff, and other funds that cover military and security forces.[13] These schemes, like the NSSF, have become effectively worthless amidst the Lebanese Lira's devaluation. Reimbursements from state-run schemes – still in accordance with the official exchange rate of 1,515 LBP for the dollar – only account for about 4% of the total hospital bills.[14]

BOX: The main competition

Before the-crisis, about 64 mutual societies covered around 340,000 individuals. The mutual health funds are available to individuals affiliated to specific groups, mostly defined by profession or religion. However, mutual funds – overseen by the Ministry of Agriculture – have all sorts of legal and regulatory constraints. For example, the 11% medical insurance premium tax, as well as corporate income tax imposed on private insurance are not applied to mutual funds which provide similar insurance services. There are also allegations that mutual funds are being used as a façade by some private insurance companies to evade taxes, as well as a tool by political forces to deepen patronage systems.

DISTRIBUTION OF HEALTHCARE COVERAGE PAYORS OF THE LEBANESE POPULATION PRE-CRISIS

Ministry of Public Health

46%

National Social Security Fund

25%

Private Insurance (individuals)

10%

Mutual Societies

7%

Cooperative of Civil Servants

7%

Armed Forces

5%

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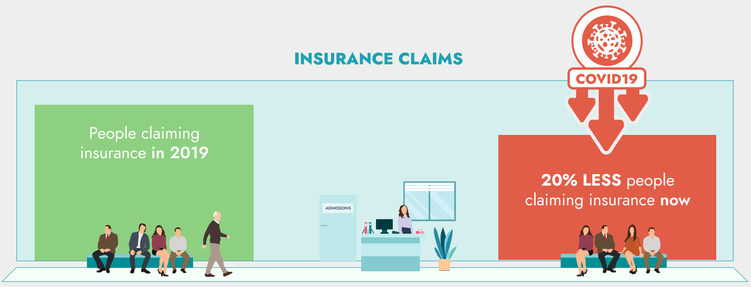
NOWHERE TO HEAL:

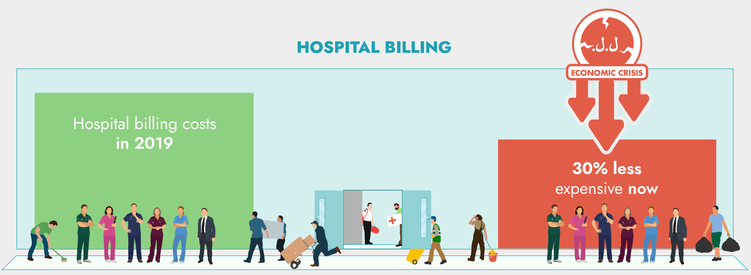
THE LUXURY OF ACCESSING HEALTHCARE IN LEBANON

INSURANCE CLAIMS



FEWER INSURANCE CLAIMS

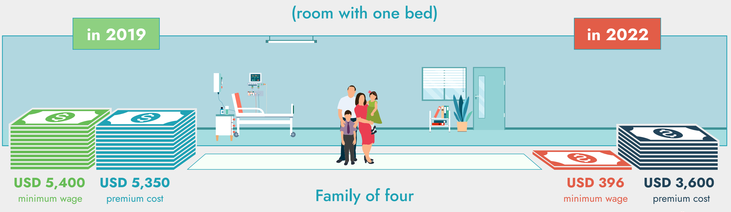
HOSPITAL BILLING

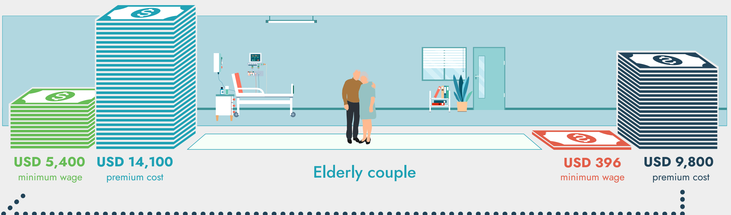


LOWER HOSPITAL BILLING COSTS

FIRST CLASS HOSPITALISATION

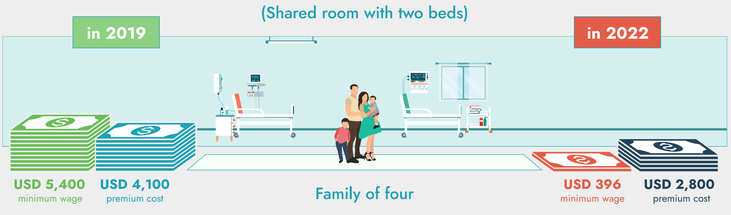
(room with one bed)

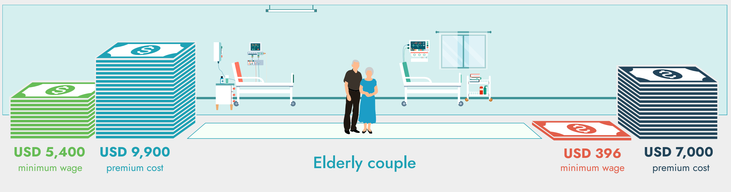




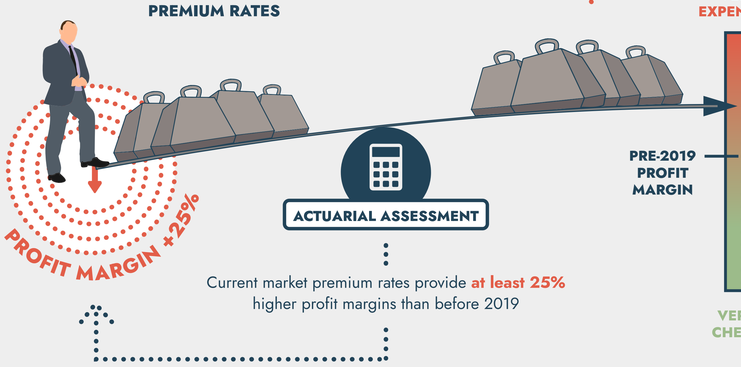
SECOND CLASS HOSPITALISATION

(Shared room with two beds)





PREMIUM RATES



Current market premium rates provide **at least 25%** higher profit margins than before 2019

Source: Triangle's data analysis findings are based on analysis of available market data from the top 10 insurers and best-estimate assumptions for the expected cost and frequency of medical claims for 2022.

The remaining Lebanese residents have no private or public coverage at all, meaning they must pay expensive out-of-pocket expenses to receive hospital treatment.[15] These costs are prohibitively expensive for almost all of Lebanon's uninsured, given that 85% of the healthcare system is privately owned.[16] Unsurprisingly, poorer families resort to avoiding treatment altogether instead of forking out a large percentage of their income on health-related expenses.[17] Refugees and migrants fare the worst, with Palestinians depending on coverage by UNRWA and Syrian refugees on UNHCR and scarce donor funds.[18] In 2021, 73% of Syrian refugees in Lebanon who did not access healthcare could not afford the cost of treatment.[19] As a last resort, the Ministry of Public Health covers any citizen who is not covered under other schemes. Yet, the ministry's capacity is also limited and rapidly dwindling.[20] While the ministry pays for urgent hospitalization costs, there is no formal financing scheme for primary and preventive health services.

Beyond providing substandard healthcare coverage, the Lebanese government has done precious little to ensure fairness within the health insurance sector. Even before the economic crisis, the ICC had proven itself toothless and unable to regulate the sharp business practices of private insurance companies. The industry watchdog receives its legislative mandate from the Insurance Law of 1968, which has been only modestly updated in the intervening decades. At present, the ICC lacks the authority to shine light on the sector's untransparent operations, which have resulted in customers being unsure of the policies that they are buying, or who is earning commissions from product sales. An expert interviewed also recommended amending the outmoded Insurance Law in line with modern international standards.

RECOMMENDATIONS

IN THE SHORT TERM:

While the private health insurance sector suffers from glaring deficiencies, for now it remains the only immediately viable path to increasing coverage in Lebanon. The government would do well to work with private insurance companies to broaden access to coverage, ensuring that as many residents as possible can afford to receive medical treatment. This approach would also make business sense for insurers, who are grappling with a rapidly shrinking market for their services.

As the income gap between the rich and the poor widens, insurers need to increase their coverage options through greater product flexibility. This altered strategy acknowledges that most consumers cannot afford to pay for the top comprehensive medical coverage but could purchase lower levels of insurance if they were offered more widely. For example, insurers could increase the deductible amount to lower premium costs, reduce special coverage or restrict their medical networks. Large bodies that offer private health insurance to

"Beyond providing substandard healthcare coverage, the Lebanese government has done precious little to ensure fairness within the health insurance sector."

members, including syndicates, could then use these varied options to ensure adequate coverage.

In the immediate absence of adequate ICC regulation, a consumer protection committee made up of experts is urgently needed to monitor premium costs, make recommendations on any new premium rates, and properly inform Lebanese consumers.

Many insurers lack the proper monitoring tools to properly review their underwriting performance of their insurance products. Insurers will need to invest in developing and enhancing business and market intelligence tools if they are to adapt and take quick, efficient actions in a volatile crisis. These tools would help insurers to adjust their tariffs and charge clients at fairer rates, which properly assess the purchasing power of the maximum range of customers.

As medical insurance is becoming issued in cash US Dollars, it is imperative to lower add-on costs to premium prices, for example by reconsidering the brokers' commissions in line with inflation instead of high dollarized bonuses. To bring relief in a time of crisis, the parliament could also introduce progressive and fairer tax regimes for different insurance packages, reducing the overall premium net tax rate of 11%. The state also needs to properly regulate and tax mutual societies for their medical insurance coverage to better protect consumers.

> ***"In the future, private insurers will inevitably play apart in any new universal health scheme by providing complementary insurance to the state's basic benefits package."***

OVER THE LONG TERM:

In the future, private insurers will inevitably play a part in any new universal health scheme by providing complementary insurance to the state's basic benefits package. Therefore, the insurance industry needs reforms now to ensure its strength and fairness in the long run.

The Lebanese government and ICC will need to address the sector's lack of regulation by updating the regulator's legal framework and building a new regulatory system with a stronger mandate. The rejuvenated body should be independent from the Ministry of Economy and Trade - and thus from its politics. Funding could come from a variety of sources, including a percentage on the premiums of policy prices, or fines to companies that don't follow stricter consumer protection regulations.

Ultimately, however, pooling all the pieces of the fragmented health-coverage mosaic has become a must to avoid a catastrophe at national scale and shield the millions of people in Lebanon who are not covered or cannot afford insurance. The Lebanese state will need support to consolidate its fragmented schemes into a universal health care system. One way could be in the form of a standardised health-care card for streamlined services, as nearly approved by parliament prior to the crisis in early 2019 despite unclarity over its funding.[21]

EDITOR'S NOTE:

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