

**Abstract:**

Medical insurance is an important feature of a health care system in which patients pay user charges to get medical treatment. Without insurance, many people would not afford acceptable care in a fee-for-service system. Since health is a merit good, making insurance broadly available in communities is a major policy issue in countries where user fees finance medical treatments. The paper analyses data from facility and household surveys in Kenya and shows that policies which popularize medical insurance can be inefficient because there exist community and household level factors that inhibit its use. The results further reveal substantial variations in the way the variables that influence the use of insurance affect different population sub-groups. In this regard, it is important to ensure that vulnerable groups in communities are not excluded from insurance schemes in which they invest. The policy value of the paper is to call attention to factors such as place of residence, gender, income, education, community institutions, transaction costs and facility quality – that hinder or facilitate use of medical insurance so that these factors can be considered when institutionalizing insurance in communities. We note that using the community as a unit of analysis in field surveys may strengthen policy conclusions usually obtained from such surveys.