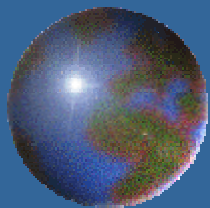


ICA 2002

“International Issues in Private Sector Health Insurance”

27th International Congress of Actuaries
Cancún, México. March 19th, 2002.



ICA 2002

“Health Insurance Supervision from the Mexican perspective”

Act. Norma Alicia Rosas R.

Vicepresident of Analysis and Industry Studies
Insurance and Surety National Commission

Contents

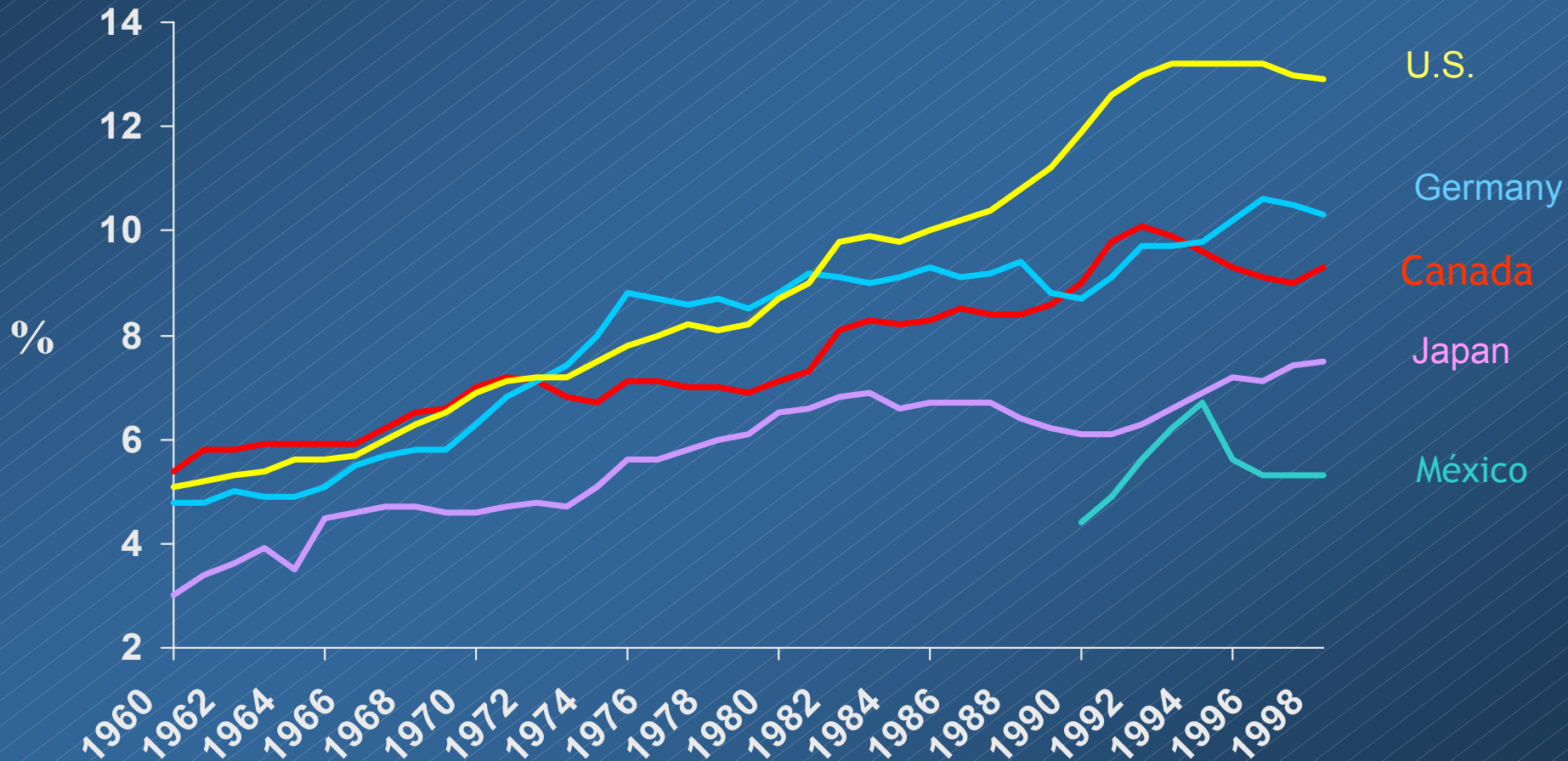
- Mexican Health System
- Health Insurance: need of specific regulation
- Conceptual Issues on the Regulatory Framework for Private Health Insurance
- Supervision Challenges
- Conclusions and Perspective



Contents

- Mexican Health System
- Health Insurance: need of specific regulation
- Conceptual Issues on the Regulatory Framework for Private Health Insurance
- Supervision Challenges
- Conclusions and Perspective

Total Health Expenditure (as Percentage of GDP)



Source: OECD Health Data

Mexican Health System

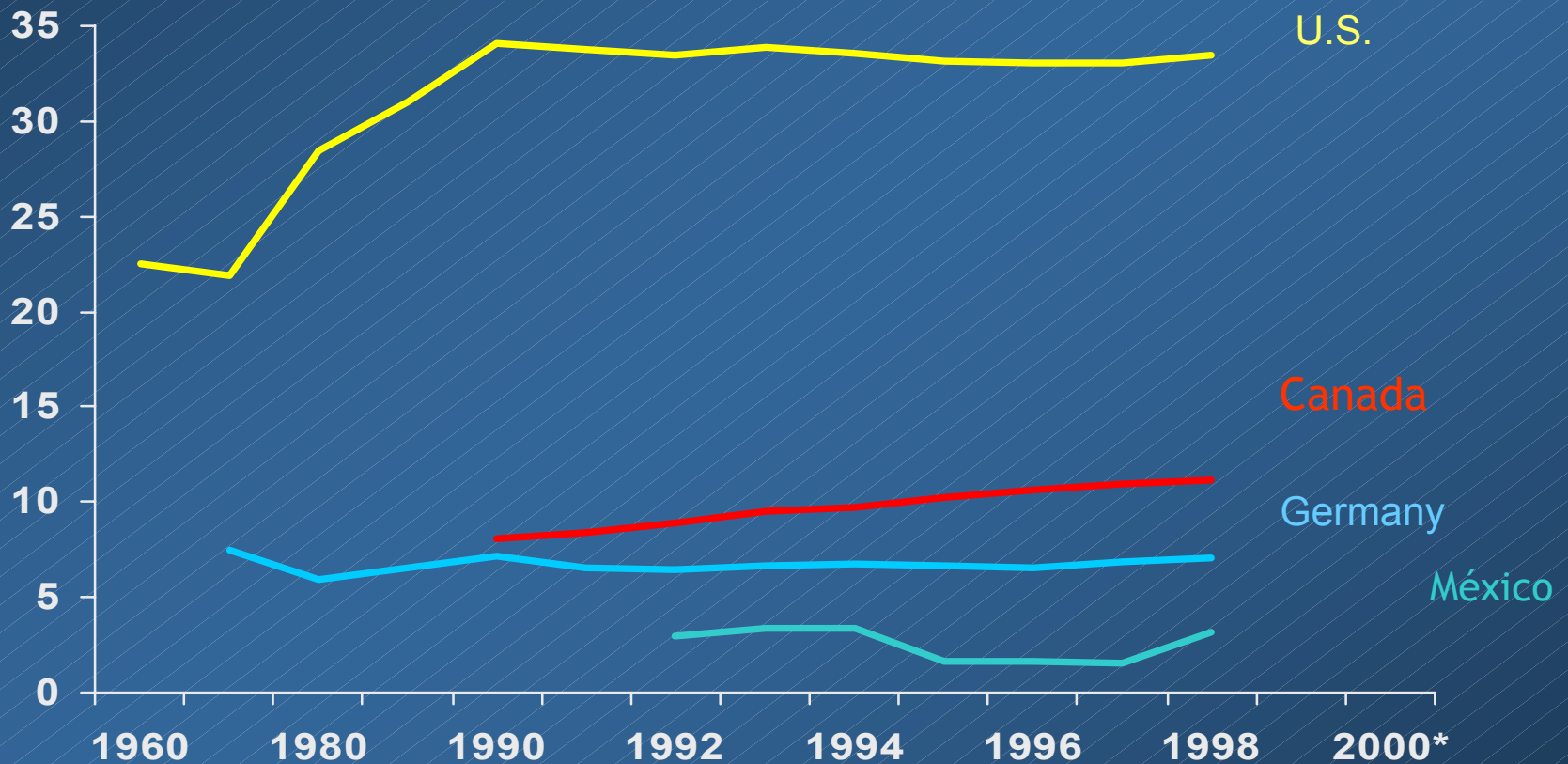
- **Public:** universal, segmented and vertically integrated
- **Private:** heterogeneous
- **Health Expenditure (%GDP):**

Total	5.6
Public	2.7
Private	2.9

<u>PUBLIC SECTOR</u>	Insured Population (Social Security)	Uninsured Population (Federal & State Health Ministries)
Population (millions)	57.1	43.9
Hospitals	467	505
Doctors (thousands)	77	60

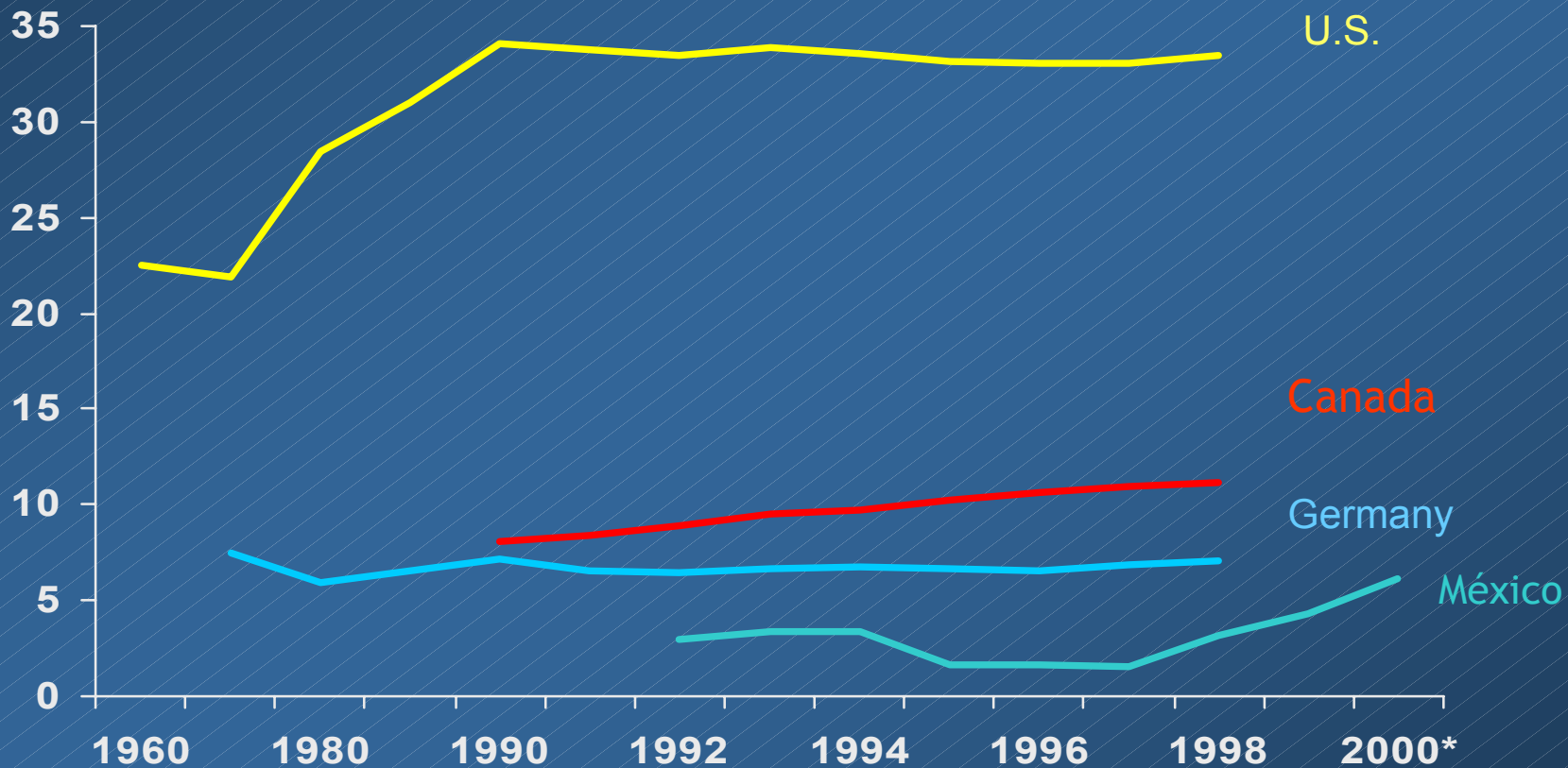
<u>PRIVATE SECTOR</u>	
Medical Units	3065 (78 with more than 50 beds)
Doctors (thousands)	69

Private health insurance (% of total health expenditure)



Source: OECD Health Data
* CNSF

Private health insurance (% of total health expenditure)



Source: OECD Health Data
* CNSF

Private Health Spending

- At the end of 2000, the Medical Health Insurance expenditures accounted for only **6% of the total private health spending**.
- Types of Medical Health Insurance:
 - ❖ Personal Accidents
 - ❖ Major Medical Expenses (Medical Indemnity)
 - ❖ Health, since 1997
- The remaining 94% of the private health expenditure is direct out of pocket spending, but includes a **non-regulated “managed care” sector** which developed during the 90s.

Contents

- Mexican Health System
- Health Insurance: need of specific regulation
- Conceptual Issues on the Regulatory Framework for Private Health Insurance
- Supervision Challenges
- Conclusions and Perspective

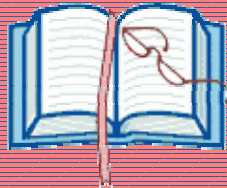
Health Insurance: need of specific regulation

- There were important reasons to create in 1999 an adequate regulatory framework that incorporated the **pre-paid health services (managed care)**, an activity that emerged in the 90s with **great dynamism**:
 - A **growing market**;
 - Quality shortcomings and **lack of guarantees** for the users;
 - **Insolvent companies** affected both, users and providers.
- Recognition that this activity involves:
 - ❖ **Risk Transfer** (“active insurance operation”), involving future and uncertain events, and
 - ❖ Medical considerations regarding **quality and sufficiency**.

Health Insurance: need of specific regulation

Ministry of Finance & Insurance Commission:

Until 2000, the pre-paid health services were not properly considered as an insurance line of business and the regulatory framework placed emphasis on major medical expense and personal accidents insurances.



Ministry of Health:

Emphasis on the sanitary requirements of health providers without the authority to supervise the adequate operation of medical networks.



Health Insurance: need of specific regulation

Health Plans:

- Prepaid “*all-inclusive*” medical attention.
- Includes both *preventive care* and *curative care*.
- There is *risk transfer* involving future and uncertain events.
- *Medical networks* coordinated by a family doctor .

DEMAND

- Individual access to “all-inclusive” services at a reasonable cost
- Employer: additional benefit to employees with emphasis on prevention and cost control.
- Supplementary to social security.



SUPPLY

- Insurance Companies
- Hospitals.
- Physician Groups
- Administrators
- Other Investors



Regulatory framework

- Reforms to the Insurance Law were published on December the 31st of 1999:
 - ❖ Modification of the «**active insurance operation**» definition, in the case of pre-paid health services (implying the existence of risk transfer);
 - ❖ Creation of the Insurance Institutions Specialized in Health (ISES), and;
 - ❖ **Participation of the Ministry of Health (SSA)** in medical issues.
- Objectives:
 - ❖ Regulate the health insurance market allowing a **sound development of the sector**;
 - ❖ **Uniform rules** for all participants with different backgrounds, and;
 - ❖ **Consumer protection.**

Health Insurance

- The health insurance line of business is described as a direct services' benefit for:
 - ❖ **Health maintenance:**
 - Follow up and promotion of the insured clients' health;
 - Opportune diseases diagnosis, and;
 - Avoid a subsequent illness dissemination or future complications;
 - ❖ **Health prevention;**
 - ❖ **Preventive care** in addition to **curative care**;
 - ❖ **Health restoration** by means of therapeutic and rehabilitation procedures, and;
 - ❖ **Services coordinated by a health professional.**

Contents

- Mexican Health System
- Health Insurance: need of specific regulation
- Conceptual Issues on the Regulatory Framework for Private Health Insurance
- Supervision Challenges
- Conclusions and Perspective

Conceptual Issues on the Regulatory Framework for Private Health Insurance

- This kind of products have four basic components that have to be taken into account for a sound operation:



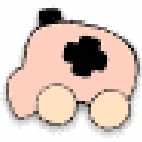
Pre-paid Medical Services



Insurance Technical Risk



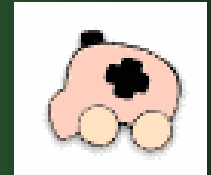
Financial Risk



Quality and Sufficiency of
Medical Services

Conceptual Issues on the Regulatory Framework for Private Health Insurance

Quality and Sufficiency of Medical Services
Guarantee standards on quality, sufficiency and access



Pre-paid medical services

Justification of risk premiums and adequate rates, as well as the management of an amortizable provision for expenses



Technical Risk in Insurance

Premiums' actuarial calculation and technical reserves constitution

Adequate reinsurance scheme



Financial Risk

**Prudential Investment Management
 & Prudential Risk Management**

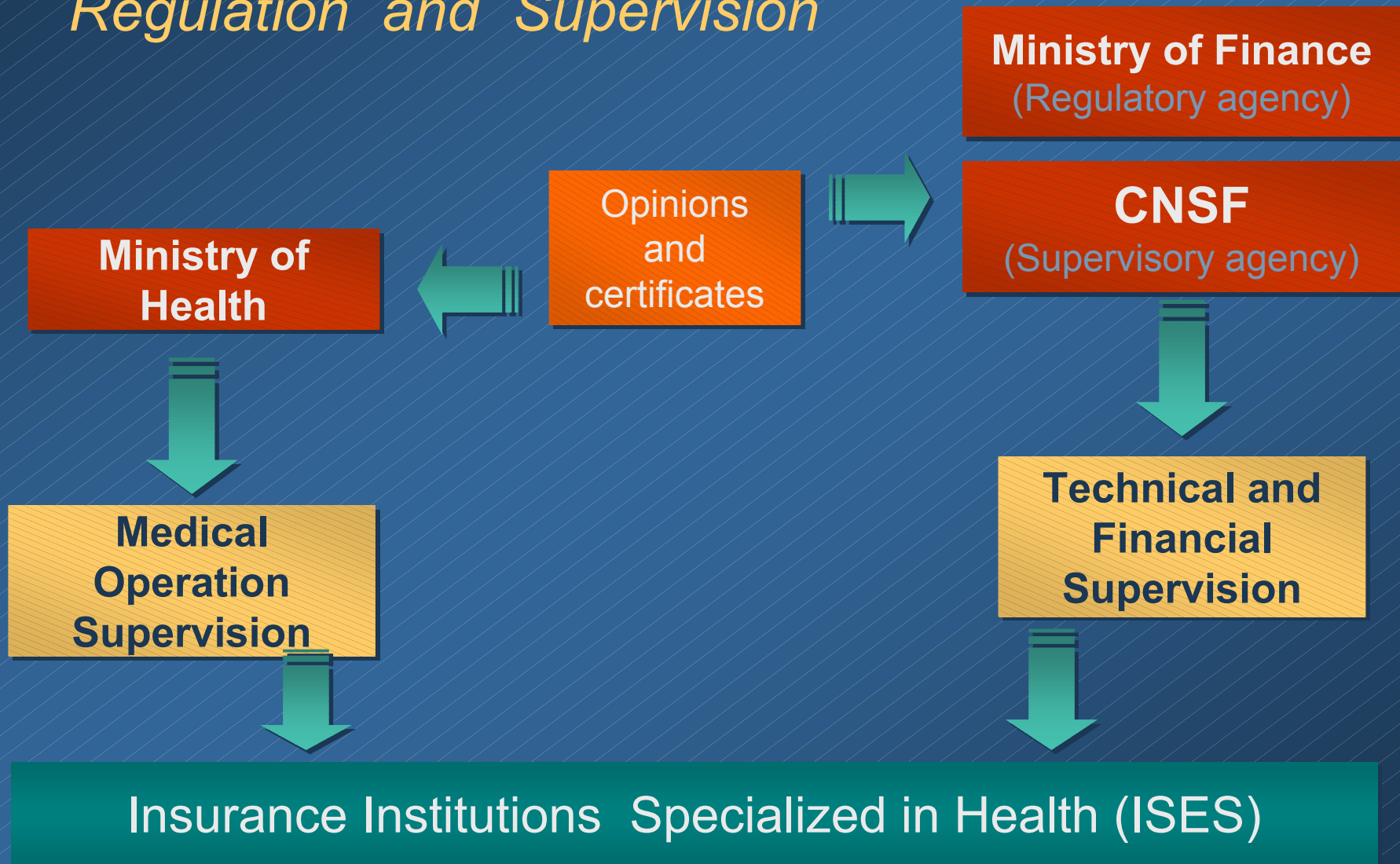
Supervision elements



Regulation and Supervision

- Therefore, in order to take into account in the supervisory scheme these four basic components, supervision is undertaken by the coordinated actions of the CNSF and the SSA:
 - ❖ The **Ministry of Finance (SHCP)** acts as the **regulator agency** for this kind of activities, categorizing them given its risk-taking technical features, and its insurance operation functions.
 - ❖ The **National Insurance and Surety Commission (CNSF)** is the **supervisory agency**, given its technical and financial insurance supervision experience.
 - ❖ The **Ministry of Health (SSA)** acts as a **technical evaluator body specialized** in assessing the quality and sufficiency of the services that are provided.

Regulation and Supervision



Regulation and Supervision

Technical and Financial Supervision:

- Technical Notes
- Technical Reserves
- Investments
- Minimum Capital Requirement
- Adhesion Contracts
- Reinsurance
- Information Systems

Ministry of Finance
(Regulatory agency)

CNSF
(Supervisory agency)

**Technical and
Financial
Supervision**

in Health (ISES)

Regulation and Supervision

Ministry of Finance
(Regulatory agency)

Ministry of Health



**Medical
Operation
Supervision**



Insurance Institution



Medical Supervision:

- Sufficiency of Infrastructure and Human Resources.
- Contracts with Suppliers
- Physicians and Hospitals Certification
- Usage of Control Programs
- Quality Improvement Programs
- Medical Compliance Officer
- Consumer Information and Complain Mechanisms

Regulation and Supervision

- Explicit consideration to:
 - ❖ Booklets delivery for practical consumers' reference;
 - ❖ Timely notification about changes in the hospital network;
 - ❖ Reimbursement of emergency medical services when not delivered by the network due to unavailability or diagnostic error;
 - ❖ Inclusion of health plans with free choice of physicians;
 - ❖ Clear definition of pre-existing condition restrictions and disclosure on the existence of guaranteed renewable insurance, and;
 - ❖ Requirements for marketing plans under the denomination of “all-inclusive”.



Contents

- Mexican Health System
- Health Insurance: need of specific regulation
- Conceptual Issues on the Regulatory Framework for Private Health Insurance
- **Supervision Challenges**
- Conclusions and Perspective

Supervision Challenges (1)

- Besides the protection and compensation responsibilities, the companies specialized in private health insurance have an important role at two different levels:
 - ❖ Care provision, and
 - ❖ Care costs' financing.
- The above features imply that insolvency conditions in this type of companies could generate **high economic and social costs**.
- Therefore it is necessary that the **regulation seeks the companies' solvency within a legal framework** that gives certainty to all participants in the market.



Supervision Challenges (2)

- Then, it is necessary to implement **regulation and supervision** schemes that meet four fundamental objectives:
 - ❖ Achieve **solvency and stability** in the insurance institutions;
 - ❖ Protect the **users' interests**;
 - ❖ Promote a **sound development of the market**; and
 - ❖ Contribute to the **economic and financial stability** at the national and international levels.

Supervision Challenges (3)

- Even more, it is necessary to maintain an adequate balance between the regulation costs and the benefits derived from the certainty level that the companies will be able to meet their obligations, so it is necessary that:
 - ❖ Regulatory actions must fulfill an efficient framework for “Solvency Regulation”;
 - ❖ Promote that the operations comply with international standards;
 - ❖ Promote the usage of techniques that allow a comprehensive risk-management;

Supervision Challenges (4)

- ❖ Incentives must be created in order to adopt **self-regulation** schemes:
 - Role of the Management Board
 - External independent auditors (actuary and financial)
 - Medical Compliance Officer
 - Ministry of Health evaluation
- ❖ Modernize the information systems in order to support the development of technical aspects, and;
- ❖ Fortify the supervision mechanisms of both the financial and medical aspects in order to promote competition among companies, but guaranteeing a minimal quality level in the services that are provided.

Supervision Challenges (5)

- Stability towards demographic changes
 - ❖ New products that take into account the Mexican population characteristics (life expectancy) with balanced premiums along time;
 - ❖ Design new products that satisfy the consumers' needs;
 - ❖ Costs' management without worsening the quality of the services provided.

Supervision Challenges (6)

- Competition
 - ❖ Of health insurers
 - ❖ Of medical services providers
- Insurance companies' public perception;
- Agents' training, and;
- Mexican population insurance acquaintance

Contents

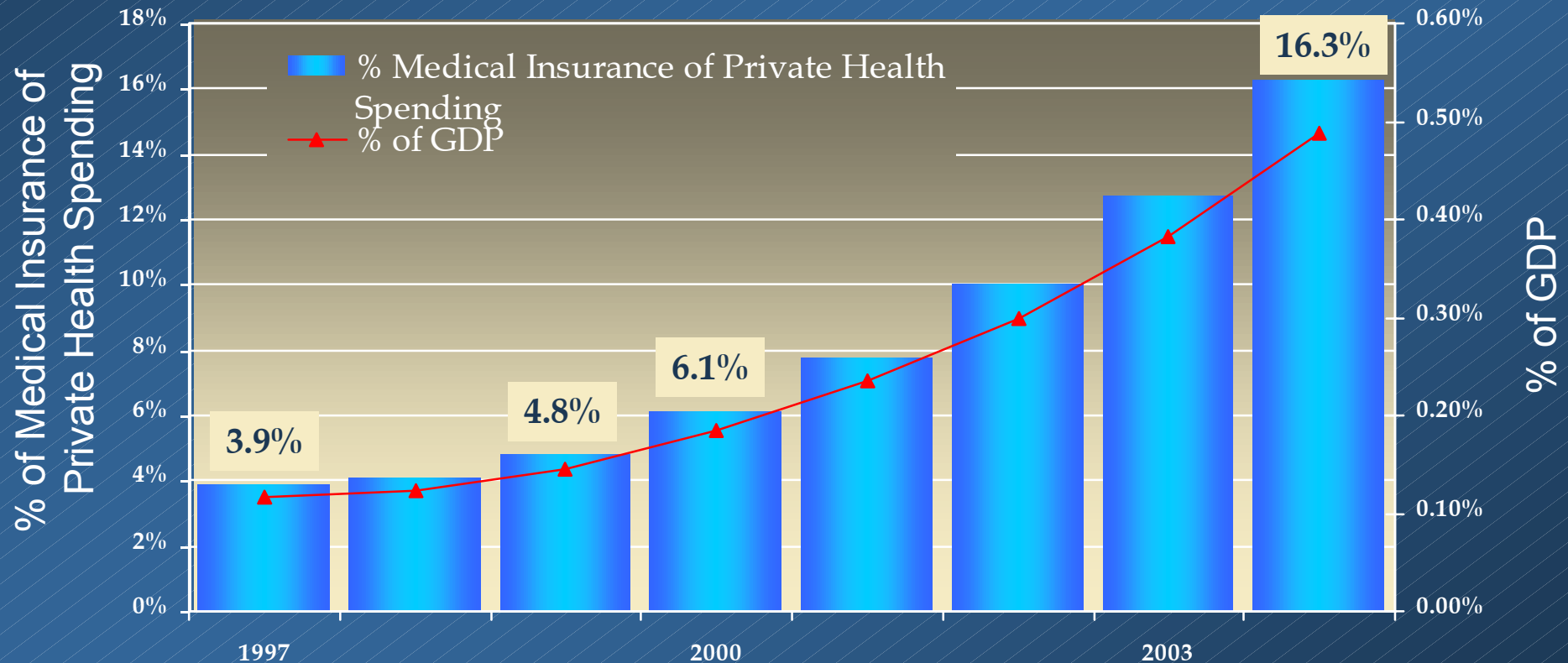
- Mexican Health System
- Health Insurance: need of specific regulation
- Conceptual Issues on the Regulatory Framework for Private Health Insurance
- Supervision Challenges
- Conclusions and Perspective

Conclusion

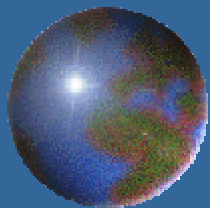
- The Mexican supervision model includes preventive actions and the development of adequate information necessary for the development of the health insurance sector.
- It is expected a gradual and sustained growth of the market under the current situation that may be increased with additional incentives and policies, which are possible.

Estimated Growth of Medical Insurance

Market Potential for Medical Insurance*



* Assumes that the Private Health Spending remains constant (3% of GDP).
Medical Insurance includes Health and Major Medical Expenses



ICA 2002

“Health Insurance Supervision from the Mexican perspective”

Act. Norma Alicia Rosas R.

Vicepresident of Analysis and Industry Studies
Insurance and Surety National Commission