

## **Are the New ISEs the Mexican Managed Care Organizations?**

by Act. Eduardo Lara di Lauro

One of the most important changes in the Mexican insurance industry has been the establishment of the Specialized Health Insurance Institutions (or ISEs, from its acronym in Spanish.) ISEs are privately held, governmentally regulated institutions that have sole authorization to operate comprehensive health insurance in Mexico. This article offers a brief overview of how and why ISEs—currently in their implementation stage—were formed, and highlights key issues surrounding their development.

### **Background**

The creation of the ISE was prompted in part by the need to formalize and regulate the practice of prepaid medicine arrangements, which had been evolving in various forms both inside and outside Mexico's insurance sector since 1994. Within the insurance sector, major medical and health insurance plans were developing various prepaid medicine arrangements, while newly emerging third-party administrators (TPAs) were developing prepaid medicine arrangements outside the insurance sector.

The banking system first introduced prepaid medicine into Mexico as a health benefit for its employees. In choosing this arrangement, banks can elect to opt out of the Social Security health system. Prepaid medicine was soon adopted by other enterprises in northern Mexico cities, mainly along the Mexico-US border.

The growing public demand for comprehensive health coverage, which traditional carriers did not provide—combined with an insurance law (which has since been modified) that did not have clear provisions for arrangements such as prepaid medicine—enabled non-insurance enterprises to enter into prepaid medicine arrangements without many restrictions.

The insurance law at that time stated that “a company that provides healthcare services through *its own infrastructure* is not necessarily operating as an insurance institution.” This enabled non-insurance companies to offer employee health benefits, such as prepaid medicine, without being subject to certain insurance regulations. Provider networks began to organize themselves as TPAs. Without regulatory restrictions, these TPAs took risks beyond their capabilities and resources, which ultimately forced many of them to declare bankruptcy and resulted in lengthy delays of payment to providers for those TPAs that survived.

When the insurance sector began offering comprehensive health products in 1996, they charged TPAs with exerting unfair competition due to their ability to take risks without the appropriate technical and financial infrastructure or regulatory compliance required of insurance companies. This in turn enabled TPAs to offer lower rates.

The Mexican government recognized the need to revise the law to safeguard public safety as well as the healthcare market. This was best accomplished, the government determined, through specialized health insurers that could protect potential investors and the consumer. The government also wanted to bolster support of preventive and maintenance health activities and programs.

### **The Regulatory Compliance Framework**

In December 1999, Mexico revised its insurance law, which included a redefinition of the term “active insurance operation,” as it pertained to preventive services and health recovery. This led to the creation of ISEs, under the supervision of the Ministry of Health, which overseeing the quality and adequacy of healthcare delivery services, and the Ministry of Treasury's National Commission of Insurance, which oversees the actuarial and financial component.

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The new law enabled ISESs to get started, to develop their infrastructure, and to get members on the books. Once they acquire adequate experience to review, these ISESs hope to demonstrate to Congress that their infrastructure and experience can provide appropriate care for members whose companies would eventually opt out of the Social Security system. This may ultimately accelerate the healthcare reform initiative.

The healthcare line of business in the Mexican market is defined as a delivery system that provides for the restoration of health through therapeutic actions and rehabilitation. For ISESs, this includes health services for preventive care and the health maintenance of its members. Since all these actions fall under a prepaid plan, risk is transferred away from the insured. The new insurance law requires that healthcare services, whether provided through a company's own infrastructure or by a TPA, be administered by an active insurance operation such as an ISES.

In 2000, the various healthcare constituents and authorities worked collectively to develop initial operating rules for the ISESs. Participants included the Ministry of Treasury (SHCP), National Commission of Insurance (CNSF), Ministry of Health (SSA), Health Committee of the Mexican Association of Insurance Companies (or AMIS, representing the private insurance sector), health services administrators (TPAs), and hospital groups and physician associations. The process of issuing corresponding rulings was extended through the end of 2001.

ISESs have unique characteristics compared with the traditional health insurance market, some of which are similar to managed care organizations in the US (HMOs) and in Chile (ISAPRESs). The key differentiator of ISESs from traditional health insurers is that ISESs are not solely restorative and rehabilitative service providers. They also provide preventative, maintenance, and general member health promotion services. ISESs not only reimburse medical expenses as they occur, they also manage the medical resources and healthcare delivery services available to their members. ISESs own or contract with provider networks. They oversee follow-up healthcare services, manage referral and contra-referral schemes, and quality assurance programs, and they maintain sophisticated statistical controls of the health services provided.

While some traditional insurance companies are beginning to use managed care tools with their traditional products, they do so on a voluntary basis. ISESs, on the other hand, are required by law to use them. It is worth noting, however, that ISESs have freedom in the design of the health products they offer. While their products are typically similar to comprehensive coverage, ISESs can carve out a wide variety of plans, thus enabling them to offer more modular health products focusing on such features as minor medical, dental, maternity, etc.

### **Current Status**

As of February 2004, there are twelve authorized ISESs: seven run by insurers, two by hospitals, and three by medical groups. There are at least two more companies that have just about to apply for authorization to operate an ISES, which are expecting to receive approval in the near future.

There are also about 15 local and regional TPAs that wish to continue providing services under the new scheme of the health insurance business, but without directly assuming risk. These TPAs hope to negotiate with established ISESs that, for a fee, will assume the risk—much like a joint venture between the two businesses. The attraction of such an arrangement for an ISES is the opportunity to increase its book of business.

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The ISEs that have obtained authorization so far are:

- Plan Seguros, S.A. (from Chilean Group)
- Médica Integral GNP, S.A. (from GNP)
- Preventis, S.A. (from Seguros BBVA-Bancomer)
- Salud Inbursa, S.A. (from Seguros Inbursa)
- Seguros del Sanatorio Durango (from Durango Hospital)
- Salud ING Comercial-América (from ING-Comercial-América)
- Novamedic Seguros de Salud, S.A. (from Medical Group)
- General de Salud, S.A. (from General de Seguros)
- Seguros Centauro Salud, S.A. (from Dental Group)
- Grupo Integral AMM, Seguros de Salud (from Medical Group)
- Servicios Integrales de Salud Nova (from Dinámica-Clinica Nova Monterrey)
- Vitamédica, S.A. de C.V. (from Seguros Banamex-Citigroup)

Most of the 25 insurance companies with long traditions of operating major medical products in Mexico are currently examining the feasibility of entering into this new business. Meanwhile, there are new players entering the Mexican insurance market, who undoubtedly will influence its path. From the US, Florida-based AMEDEX Insurance Group just received its final authorization to operate a major medical insurance company in Mexico. The National Commission of Insurance recently received several request for information on the ISEs authorization process. And despite previously failed attempts, BlueCross & BlueShield plans continue to show interest in entering the Mexican healthcare market. On the domestic side, Seguros Argos (from the new Grupo Asegurador Mexicano), which focuses on both life and health products, is also preparing to participate in the health insurance business business.

### **Managed Care and the ISEs**

Despite some opposition to managed care (based more on rumor rather than fact), constituents of the health insurance industry are still interested in managed care principles and objectives. They regard managed care as a good tool for aligning incentives that move purchasers of medical services (employers), consumers of medical services (patients) and providers of medical services (clinicians and hospitals) toward more cost-efficient quality care.

Managed care has much to offer Mexico's healthcare system as a tool to effect positive change, both in terms of preventive and curative care, while still taking into account the deep structural and cultural differences between Mexico and the US. Key assets include its emphasis on multidisciplinary physician collaboration rather than individual physician autonomy, its ability to provide more sophisticated clinical information systems and technology, and its well-researched best practice guidelines and protocols.

Currently, about 5 million people in Mexico are covered by health insurance. This is a not a large pool to adequately implement a comprehensive managed care program, but it's a start. Proper and thoughtful implementation of managed care would likely spread health insurance coverage in Mexico, which in turn would provide adequate resources to develop customized cost-control and quality evaluation mechanisms.

The industry is currently making important strides toward adapting and developing concepts such as:

- Provider credentialing and re-credentialing process

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- Use of primary care physicians (PCPs)
- Provider incentive programs
- Preventive medicine programs
- Use of authorization processes
- Use of utilization review and utilization management processes
- Use of case management and disease management techniques
- Quality assurance program implementation
- Creation of databases covering utilization by region, age and gender
- Product design using methodologies such as standard community rating by class, experience community rating, and adjusted community rating
- Specialized health insurance information systems
- Rudimentary capitation schemes
- Use of codifications such as CPTs, ICD 9th & 10th,
- Use of RBRVUs, and GRDs
- Protocols and medical guidelines

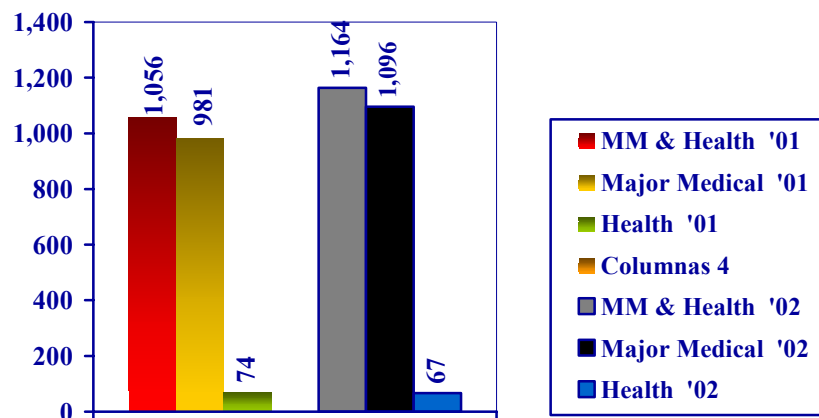
Above all, the ability of a managed care system to survive in Mexico over the long term, will depend on how those who implement the system understand, adapt, and apply it to achieve effectiveness.

### The Market

The current ISES market is not limited to the number of insured members currently listed in the official statistics. There are at least 50% more members under self-insured programs who are not registered in these published statistics.

According to Mexican Association of Insurance Institutions (AMIS) statistics, the issued revenues by major medical and comprehensive health products up to December 2002 were as follows:

### Major Medical and Comprehensive Health Issued Revenues (Dec. 2002, US dollars in millions)

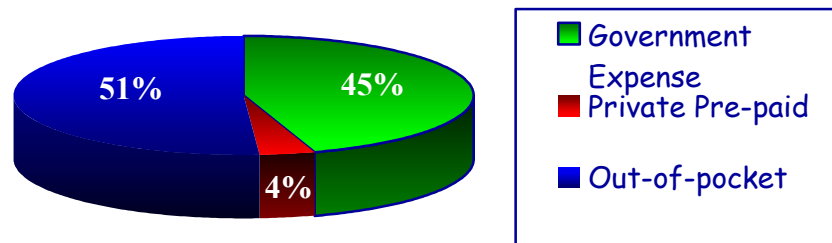


From this chart, the volume appears relatively unattractive. Nonetheless, according to the Ministry of Health, Mexico spends 5.6% of its GDP (roughly US\$25.5 billion) in health expenses. Of that, only 4% (US\$1 billion) is through private insurance premiums. Of this 5.6% of GDP figure, our information indicates that 2.5% are government expenses and 3.1% are private expenses. This last figure indicates a potential market of about US\$15 billion.

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### Health Expenses: 5.6% of GDP



As the above charge indicates, the potential health insurance market in Mexico is attractive and offers huge opportunities.

Among the self-insured plans not included in the official statistics are:

- Enterprises with opt-out agreements from the Social Security such as the banking system, the mining industry and some northern corporations
- Government-run companies such as the National Lotto, the National Commission of Banks, the National Fund for Tourism Promotion, the National Commission of Insurance, the Mexico City Subway, and others
- Federal and state governments
- Public universities
- Private companies with health benefits financed by self-insured schemes

The ISESs have overcome several hurdles, and there are more to come. Nevertheless, they represent an important step in the right direction. The key now to developing Mexico's private health insurance market is increasing the support of its constituents and increasing the book of business for the ISESs.

### **Pending Issues**

In September 2001, members of Mexico's private insurance sector gathered in Mexico City to determine strategic objectives for insurers in the health sector. From this meeting emerged the following vision and mission statement:

Vision: To achieve an integrated, profitable, and user-focused private healthcare system.

Service Mission:

- To generate a reliable image among users and providers
- To promote the proper knowledge of coverage, benefits and claims, and reimbursement processes
- To improve relationships, agreements, and communication among constituents
- To ensure that the users are well educated on the services and options provided, such as freedom to choose a provider of his or her choice.
- To increase access to private health insurance

Issues and initiatives currently under consideration or development by the health insurance industry include:

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- Reviewing the functions of each player in the healthcare delivery process (i.e., defining the basic functions of financing, articulation, delivering and promotion) and allowing them to utilize their specialty areas, while avoiding overlaps and mistakes, such as providers taking risks without actuarial and financial support or health plans managed by insurance brokers.
- Redefining the functions of each player to determine sales commission levels.
- Determining the best way to train agents and brokers on the new kinds of comprehensive health insurance products and services available and to educate the end user on how to access their services (e.g., selecting a provider).
- Developing reliable, and complete domestic statistics by region, as well as indicators to measure quality of service and members' health improvements, based on the use of proper information systems and uniform codifications.
- Designing (via consensus) clinical protocols and standards utilizing best practices based on the premise that “the best diagnosis produces the best treatment, which generate the proper cost.”
- Creating a standard claim format for physicians and designing— and obtaining a consensus for—a standard billing format for hospitals.
- Educating the industry on the fundamental roll of the medical providers in overseeing healthcare programs and integrated development. (Medical providers must be well trained and have a comprehensive understanding of health insurance, managed care and quality assurance.)
- Moving beyond the limitations of the “simple” or “canned” healthcare products currently being offered, and designing more sophisticated, flexible comprehensive products that better fit the Mexican healthcare market.
- Finding creative healthcare alternatives for special populations such as the elderly, chronically ill, and low-income groups.
- Using the proper concept of “transferred risk” or “shared risk” to providers—as defined by the managed care system—to serve as the basis for a true “capitation” system and managing “risk pools” to help risk-takers avoid bankruptcy (some people are confused about how to applying the concept).
- Developing skilled human resources, specialists and experts in healthcare delivery systems and managed care techniques and tools, which will be key to the ongoing success of this endeavor.

### **Conclusion**

The health insurance market in Mexico is still in its embryonic stage, but the potential for improved public health and market profitability is enormous. However, there is much work to be done. The new insurance law and the establishment of the ISEs attest to the willingness of the Ministry of Health and the National Commission of Insurance to support the growth of private health insurance, but it will be up to all the constituents to seek and create opportunities to enable the private healthcare system to become “integrated, profitable and user-focused.”

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As the ISEs mature, it is likely that the Social Security system may look to private healthcare options for solutions for its own population. The new comprehensive health insurance national statistic system, once finalized, will strengthen the decision-making process through specific performance indicators of each player involved. Meanwhile, the imminent arrival of new domestic and international players will also stimulate growth and provide more options to the consumers.

There are numerous ways to strengthen and improve current products and launch new ones, such as trans-border products, tourist products, and products for specific populations, with open or closed provider networks.

As the number of multidisciplinary teams, composed of physicians, actuaries, information systems specialist and other experts involved in the healthcare delivery system, continues to grow, so will their ability to create clinical protocols and guidelines that will ultimately serve as a solid base for a proper Mexican managed care system.

The Mexican health insurance industry is working diligently to encourage local and foreign investment by sending a clear message that the ISEs have the necessary basis for sustainable development and achievable goals. These institutes, along with the development of new products and protocols, will improve the efficiency of Mexico's healthcare system, while significantly reducing costs to the consumer.

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