



SOCIETY OF ACTUARIES

Article from:

International Section News

June 1998 – Issue No. 16

Brazilian Health Industry

by Ronald L. Poon-Affat

This article is the first of a series that will analyze the present state of the Brazilian life and health insurance industry. The Brazilian market is currently in the spotlight for foreign investors, and I should start with setting out a few key statistics about the region. Brazil is home to 160 million people, making it the world's fifth most populous country and the world's third-largest democracy. At just over three million square miles, it is slightly larger than the continental U.S. and has the tenth-largest economy in the world. But perhaps most importantly, the Brazilian insurance industry is larger than Spanish-speaking Central and South America combined.

The world's attention turned to Brazil when overseas markets became confident that the economy was on the right track after the an economic stabilization plan, the Real Plan, was introduced by President Fernando Henrique Cardoso in February 1994, at which time he held the post of Finance Minister. The Real Plan followed four previously unsuccessful attempts by prior Finance Ministers to tame a runaway inflation rate that had been running at over 50% per month. Currently, the level of inflation is less than 0.5% per month. The first phase of the Real Plan was the introduction of the Unidade Real de Valor [Real Unit Value (URV)], in February 1992, which is a reference currency adjusted for inflation on a daily basis. In July 1994 the Real was implemented. This is the present currency that replaced the Cruzeiro Real at the parity value 1 Real = 1 URV. In addition to rebasing the currency, the Real Plan reduced import tariffs, abolished automatic indexation, and introduced the privatization and elimination of government monopolies.

In this, my first article on Brazil, I set out what is essentially an introduction to the health market.

Health Plans

Several different types of private health plans exist. The main ones are as follows.

Seguros Saúde (Health Insurance).

These plans are sold by insurance companies via licensed brokers and are considered to be quite up-market, being the most expensive of all available health contracts.

Coverage is comprehensive and often includes access to U.S. health care facilities. A directory of recommended doctors and specialists is provided, but clients usually have a free choice and receive reimbursement of expenses if care is provided by a clinic that is not listed. This is the only sector of the health industry that is regulated by the government body, Superintendência de Seguros Privados (Susep). Regulation under Susep means that policies must conform to the insurance code and may be sold only by licensed brokers. Companies must maintain defined reserves, adhere to minimum capital requirements, and cannot own any of the hospitals they use. These restrictions do not apply to any of the other types of health providers described below. The industry association that represents Seguros Saúde is Federação Nacional das Empresas de Seguros Privados e de Capitalização (Fenaseg). This sector accounts for 21% of the health market premium and 13% by number of members.

Co-operativas (Cooperatives)

Co-operativas as the name implies, operate under a cooperative system where the participating health care providers are the owners of their facilities. The plans they sell are called "Planos de Saúde" (health plans; these are very different from Seguros Saúde described above). Unimed is the parent of all the co-operativas, and the associated members can be easily identified by the prefix "Unimed" (for example, Unimed-Paulista operates in Sao Paulo). Since its establishment in the 1960s, the growth of Unimed has been nothing less than spectacular and now covers more than 10 million members (24% of the



market's private health members) and accounts for 22% of all health premium. Unimed provides comprehensive coverage to its members within a closed network and offers a more affordable plan than the Seguros Saúde. Given that Unimed does not fall under Susep's authority, its plans can be sold by unlicensed brokers, are not required to establish reserves or adhere to minimal levels of capital, and can own or lease hospitals attending its members. The cooperativas are effectively self-regulated but, for some archaic reason, fall under the authority of the Ministry of Agriculture. They are represented by the Confederação Nacional das Unimeds (National Confederation of Unimeds).

Medicina de Grupo (Group Medical).

These organizations also sell "Planos de Saúde" (as Unimed above) and enjoy the same liberties allowed to Unimed regarding agents, reserves, capital, and hospital ownership. These plans offer very basic benefits and have a number of exclusions; the exclusion of major organ transplant and by-pass surgery is not uncommon. Clients are also limited to a few hospitals within a defined geographical region. The marketing focuses on the lower- to middle-income market. The association for these companies is Assoc. Brasileira das Empresas de Medicina de Grupo (ABRAMGE). This sector accounts for 27% of the health market premium and 41% by number of members.

Autogestão (Self-Insurance). This health plan is designed for the establishment of self-insurance by a large

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individual company or a group of companies using either a specialized third-party administrator or a life company that will also offer excess-loss coverage. Their interests are represented by Comitê de Integração de Entidades fechadas de Assistência à Saúde (Ciefas), and this sector accounts for 30% of the health market premium and 22% by number of members.

Sistema Unico de Saúde SUS (Single Health System). This is the term for the health coverage plan provided by the government to all Brazilians. It is, of course, the only option for those who are not fortunate enough to have a private health plan. The private market covers approximately 41 million people, leaving the remaining 119 million to be covered by the Sistema Unico de Saúde.

Distribution of Health Plans

Table 1 summarizes the membership, premiums, number of doctors, and loss ratios that are associated with each type of plan. All monetary figures are in Reais (U.S. \$1 = Real \$1.125 as of the March 1998 commercial rate).

An analysis by source of sales reveals that 75% of health plans are purchased via a group plan and the remaining 25% by individuals.

How Important Is Health to the Insurance Market in Brazil

The regulatory body, Susep, provides up-to-date figures on the insurance companies' Seguros Saúde production. The figures in Table 2 have been

extracted from their reports and demonstrate an impressive growth of the health market since 1995. The Real Plan commenced in February 1994 and its success immediately benefited many sectors, including the health industry.

Who Are the Major Players in the Health Insurance Market?

As can be seen in Table 3, the health market is growing much faster than the overall insurance market. Health sold by insurance companies now accounts for 21% of the entire insurance market premium, up from 13% in 1995. Once again I must stress that these figures only include Seguros Saúde.

We are seeing deteriorating loss ratios, which are probably due to a combination of factors such as greater competitiveness, greater awareness amongst members of their entitlements, and slippage in claims management as a result of the sheer increase of volume. It is my opinion that these reported loss-ratio figures are underestimated because the general market does not establish IBNRs.

Nine large health carriers dominate 94% of the market; however, there are 36 players listed as participants in this market. In spite of this concentration, I would not label the market as oligopolistic. For example, Maritima only started in 1995 and now writes just under R200 million a year.

Potential Growth

Brazil is considered to be the country of the future, but what about the health

industry? What is the potential for this sector?

In February 1994, the month in which the Real Plan began, the health sector represented 0.74% of the GDP (PIB, Produto Interno Bruto). In 1997, it represented 3.5% and is projected to rise to 5% in the short to medium term. To place some perspective on this projection, Argentina currently spends 7% of its GDP on health care and the U.S. 14%.

When considering the new sales potential, one can also compare the number of persons who are classified as falling within the total labor force (74.1 million) to the present number of persons who are covered under private plans (41 million). The industry's forecast is for the number of persons covered by health plans to increase to 57 million by the year 2000.

In addition to these positive economic and population indicators, there are other reasons to be bullish about future growth prospects—namely, the market is actively exploring new distribution channels; there is willingness to offer a range of health products with a price to suit every budget; there is great potential in increasing sales to individuals and there is now access to the services of multinational reinsurers in the area of health via the state reinsurer the Instituto de Resseguros do Brasil (IRB).

This article presents an overview of the market and tries to show the potential that exists in this sector. And while

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TABLE 1
Comparison of Health Plans
(Figures are as of December 1997)

| | Number of Participants | R Billions Premium | Annual Average Premium | Number of Doctors | Loss Ratios |
|-------------------------|------------------------|--------------------|------------------------|-------------------|-------------|
| Seguros Saúde | 5,300,000 | 4.00 | 755 | 45,000 | 77% |
| Co-operativas Medicinas | 10,000,000 | 4.20 | 420 | 75,000 | 75 |
| Medicina de Grupo | 17,000,000 | 5.20 | 306 | 83,000 | 75 |
| Autogestão | 9,000,000 | 5.70 | 634 | 30,000 | 85 |
| Total | 41,300,000 | 19.10 | | 233,000 | |

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everyone appreciates the opportunity, the market is very much aware of the high degree of specialization that is required to achieve success in this area. There are many companies, some with international partners, that are very cautious, indeed reluctant, to enter the health arena. One should note that while there are more than 130 registered insurance companies, only 36 are writing health business.

In conclusion, the positives do appear to justify the underlying risk and challenges and the industry's projections appear to be wholly attainable, which support the continued growth optimism.

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TABLE 2
Growth of the Brazilian Health Market since 1995

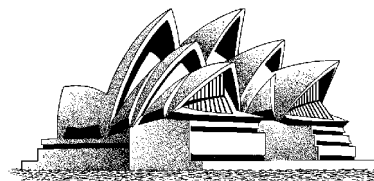
| | Years | R Million | Increase |
|----------------------------------|-------|---------------|----------|
| Total Insurance Industry Premium | 1995 | 14.046 | — |
| | 1996 | 15.111 | 8% |
| | 1997 | 18.395 | 22% |
| Health Premium | 1995 | 1.818 | — |
| | 1996 | 2.153 | 18% |
| | 1997 | 3.975 | 85% |
| Health Loss Ratio | 1995 | 73% | |
| | 1996 | 76% | |
| | 1997 | 77% (to 9/97) | |

TABLE 3
Major Players in the Brazilian Health Insurance Market

| | Foreign Partner | R Million 1997 | Percentage of Market |
|--------------|-----------------|----------------|----------------------|
| Sul America | Aetna | 1,341 | 34% |
| Bradesco | Prudential | 1,053 | 26 |
| Golden Cross | Cigna | 535 | 13 |
| Maritima | — | 191 | 5 |
| Bamerindus | HSBC | 188 | 5 |
| Porto Segur | — | 173 | 4 |
| Unibanco | AIG | 131 | 3 |
| Generali | Generali | 71 | 2 |
| Itau | — | 64 | 2 |
| Total | | 3,747 | 94% |
| Total Market | | 3,975 | |

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