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Impressions of a U.S. Health Actuary Working in Brazil

by Ronald Poon-Affiat

Continuing our series of newsletter articles on the Brazilian market, our Ambassador to Brazil interviewed Stefan Keene, FSA who is working in Rio de Janeiro with CIGNA. CIGNA is presently charged with the responsibility of managing Golden Cross, one of Brazil's largest health insurance companies. Golden Cross is the third largest health insurance company in Brazil writing approximately R\$ 900 million of health premium per annum (US\$ 529 million).

What is your position within CIGNA/Golden Cross?

I am responsible for underwriting, actuarial, and medical economics, plus I have interim responsibility for group sales.

How long have you been in Brazil?

Almost a year.

Have you worked out of the United State before?

No, I lived in the UK for a year while I was in school, but beyond that this is my first experience living outside the United States.

Married, kids?

Yes, I am married and have a son who is almost a year old now. My wife has lived all over the world (Philippines, Bolivia and Peru) so she is a lot more accustomed to this than I am.

What do you like most about living in Brazil?

I love Brazilians' attitudes towards children. Children are very welcome everywhere, more so than in the States.

What do you miss most about being away from the States?

Two things: Cheap merchandise, as Brazil is very expensive, especially electronics and household pharmaceuticals. Secondly, spicy food: Brazilians do not like spicy food, at least not Brazilians in Rio de Janeiro.

How do you compare expectations versus the reality of living in South America?

It has been surprisingly easy living here compared to what I was expecting. My wife's parents had lived in Bolivia and Peru and I think that life there was a lot more difficult and complicated than it is here. Rio is a very sophisticated city and we get to do most of the things that we enjoy.

How has it been interacting with your Brazilian colleagues in terms of management and actuarial matters?

The biggest challenge was blending American, Spanish, and Brazilian management styles, plus dealing with the mix of English, Spanish, and Portuguese spoken concurrently in the business environment.

And actuarial issues?

The biggest actuarial issue that I have struggled with here is a weak understanding of how medical trend works. People assumed that medical trend was the same as general inflation; there was no understanding of severity, utilization, and unit cost trends. I probably spent my first four months here trying to convince people that medical trend existed and that it should be included in the pricing of medical products. I still think that a lot of our competitors don't understand this concept. Even the regulators don't accept price increases based on utilization and severity increases, and I have spent a lot of time discussing these issues with regulators.

What has been your biggest challenge in general?

Dealing with uncertainty—Everything from the economy and regulation to "what's my job?" Due to the "fix-it" nature of my assignment, I have had to take on additional responsibilities and drop others as our business situation changes. It is very difficult at times, but I love it!

What did you find to be surprisingly easy?

When I got here I found that identifying priorities was relatively easy. There were very basic, fundamental requirements: reprice the portfolio, control medical costs, and reduce expenses. While those might be the same priorities for CIGNA HealthCare in the United States, the specific corrective actions would be more sophisticated. Here it is back to basics.

What do you think will be the impact of the Brazilian crisis on the health market?

I think the effect will be twofold. Firstly I believe that growth will be stalled for the short term. We are going to stop seeing the growth of the middle class who have the income necessary to buy health insurance plans, and employers will not have as much money to purchase group health plans. This will produce a decline in total medical plan membership and perhaps even premium.

Secondly it was a bad idea to have an economic crisis (small joke) at the same time as a major change in legislation (footnote 1). Even without the economic crisis, I was predicting a decline in the market due to the new legislation and now you have the crisis in addition.

How important is Brazil to CIGNA's overall worldwide strategy?

Critical—Brazil is probably one of our top 3 worldwide priorities. We believe the long-term opportunity in the Brazilian health care business is tremendous.

Is it right to think of Brazil as an emerging market?

Yes and no. If you compare Brazil to Peru or Bolivia, Brazil clearly is not an emerging country. On the other hand there are very high debt levels, interest rates and political uncertainty, plus a very small middle class. But Brazil is probably a lot higher on the scale of not being an emerging country than being an emerging country.

Do you think that the Brazilian health market is saturated?

In terms of saturation I'd say that there are lots of players but not many sophisticated players who have a large (greater than 10%) share of the market. My prediction is that there is going to be a lot of consolidations because of the new legislation. I think that there is a lot of room for consolidators.

Do you see the continuation of the rapid growth of the Brazilian health care market?

Long term, yes. Short term, no.

As an actuary accustomed to working in the U.S. markets, how have you adapted to working in the Brazilian environment?

Investment Markets: In the United States, in health care, no one pays much attention to investment income. Here it's totally different, Golden Cross and others made a lot of money in the days of hyperinflation. You took in \$100 of premium at the start of the month, you paid \$150 of benefits at the end of the month, but you earned 100% interest during the month. So you made a 50%

probably worse than in the United States. But we have a large enough volume of data to make pricing decisions. However I really dislike the local accounting system; it is very difficult to take apart and explain statutory financial results. CIGNA has a very strong relationship between our pricing and financials, but here drawing the link is very difficult because of the accounting system.

Legislative environment: This drives everything right now, more so than in the United States.

Products: Before the legislation, health care plans were very much a sold product and the market was quite manipulative. People often didn't know what they were buying—which is why we have a new law. We now have a mandated, very rich standard benefit package, which will make it more difficult for competitors to differentiate themselves in the market.

I also found it surprising that coparticipation by the insureds in the covered medical expenses in the form of copayments, deductibles, and coinsurance is nearly non-existent in Brazil.

Distribution Channels: These are very different. For instance, in the States we do not sell individual health products for all intents and purposes. Here individual

often, in my opinion, at the expense of profit margins.

Is Brazil a must for U.S. players who are already active in international markets?

No. I think it would be best if our competitors stayed out of Brazil.

And finally, in recruiting a U.S. health actuary to live and work in Brazil, what are the main qualities that you would be looking for?

First, a quick plug for CIGNA's actuarial program in the States: I am in an Actuarial Executive Development Program where I rotate jobs every couple of years. As a result, I've seen the health, pensions, and individual life businesses in both financial functions and non-financial roles. The rotation process has taught me how to move into a new situation and quickly understand the business drivers and identify and execute on key priorities.

In looking for a U.S. actuary to recruit to any overseas operation, my short list would be:

- 1) Flexibility and ability to thrive in ambiguous environments
- 2) Ability to quickly understand key business drivers
- 3) Proven track record of setting priorities and producing results
- 4) Language skills never hurt, even though I didn't have them before I came to Brazil.

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margin with a loss ratio of 150%. Fundamentally, it was shocking for me to get used to. Today you can't make as much money on float but certainly more than in the United States.

Economic Environment: In the States there is no concern about the effect of currency movement on health costs, but here currency movements do impact health costs due to imported medical supplies.

Lack of Credibility of Data: We certainly have data quality issues, which are

plans exist and are sold aggressively using very expensive pyramid-style independent agent structures. The sales personnel are often part-timers or students; they are not sophisticated health care professionals. First year persistency is terrible—the industry norm appears to be 50%! Poor persistency mattered less in the past because of the interest spreads, the key was to get money in the door. Today persistency drives individual profitability.

Competition: I was surprised at how competitive the market was. Companies are fighting for market share today and

Footnote 1: The *International Section News* issue dated September 1998 contained an article regarding the impact of the new health legislation in Brazil introduced in December 1998.

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