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Ley 100 (Law 100) in Colombia

by Rod Mangrum

Ley 100 (Law 100) in Colombia was ratified in 1993 and essentially linked the government pension plan with a radically redesigned government-sponsored and controlled yet, privatized health plan. Until this point, the Seguridad Social (Social Security) served only as a pension plan but with the advent of Ley 100, Seguridad Social en Salud (Social Security in Health) was created and linked with the existing Seguridad Social. They were linked in the sense that they had common auspices and employee/employer contributions would be collected through the same medium. However, the Seguridad Social in Salud would essentially function independently. The Seguridad Social en Salud proceeded to implement the Plan Obligatorio de Salud (Obligatory Health Plan—POS).

Reasons for the creation of the POS:

1) The existing health care system was reaching only 21% of the population.

2) More than 1,000 government sponsored entities for the delivery of health care services were found to be grossly inefficient.

3) A huge deficit had begun to burden the existing system.

Thus it was thought a more efficiently run program to be largely administered by private entities would result in a plan that could touch a larger percentage of the mainstream population and, with individual contributions, would make for a more fiscally responsible plan.

Structure of the Seguridad Social en Salud:

- Empresas Promotoras de Salud (Promoting Enterprises of Health—EPS)

  The EPSs are essentially the organizational nuclei of the new structure. They, for a "capitated" annual fee, provide a predetermined reimbursement for a given procedure covered under their plan. EPSs in a sense, are similar to HMOs as they assume insurance risk up to a specified retention limit per procedure.
- Instituciones Prestadoras de Servicos (Service Providing Institutions—IPS)

  The IPSs are the actual hospitals, clinics, etc. providing the services to the public, which are later to be reimbursed by the EPSs.

It is interesting to note that the EPSs can freely compete with each other and the IPSs can work with more than one EPS. Further, a given contributor can choose freely among EPSs and/or IPSs.

These features are important given the principles by which the Sistema de Seguridad Social en Salud was founded:

(a) Equality

(b) Obligatory

(c) Integral Protection

(d) Free Choice

(e) Autonomy of the Institutions

(f) Decentralized Administration

(g) Community Participation

(h) Quality

While all of these EPS and IPS entities are from the private sector, they are still under government control. The SuperIntendencia Nacional de Salud (National Health Superintendency) performs the following functions:

- Inspection
- Vigilance and control
- Implementation of mechanisms to monitor the quality of health services performed
- Budget and financial control of participating entities

Meanwhile the Minesterio de Salud (Minister of Health) takes on the role of ensuring that epidemic outbreaks (e.g. leprosy, tuberculosis, malaria) are controlled and do not cause catastrophic financial peril to EPS and IPS organizations.

Two separate plans were effectively created. The first was a contributory plan (the focus of this article) that would service those with the economic means to contribute and the second was a subsidized plan for those who could not contribute to the other plan. The contributory plan would consist of contributions from the individual as well as from the employer. The government would largely run the subsidized plan.

As mentioned earlier, the reimbursement for a given procedure is set from a predetermined list of fees/services that is maintained by the government. Also, the government maintains a list of co-pays/deductibles by group of services performed. These government mandates result in all of the EPS organizations offering identical POS plan designs, and all receive the same contribution per enrollee. In this environment the financial success of an EPS is determined largely by:

a) age, sex and health status characteristics of their covered population

b) IPS network quality and negotiated fee levels

(c) administrative efficiencies

Obviously, a significant opportunity has been created for private entities to

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serve as EPSs and potentially as a TPA providing services to EPS organizations. However, the traditional insurance company can also seize an opportunity by providing excess coverage to those who would prefer a degree of care beyond that provided by the POS plan design. It is already the case that EPS's are working with insurance carriers in an effort to efficiently coordinate the claim adjudication function when excess coverage is provided. First, the insurance carrier processes the claim as though the coordination with the EPS did not exist. The insured is reimbursed this total amount and the EPS then reimburses the carrier for the portion of the claim that they were responsible for as the primary insurer. A potential drawback is that this higher level of coverage in a contributory plan could never be made to be mandatory by an employer for all of its employees, which could create the age-old problem of anti-selection.

Another control that the government has in place is a type of guarantee fund, which takes 15% of contributions earmarked for the EPSs. This money serves the purpose of re-distributing funds to EPSs that have had adverse experience in an attempt to maintain equality among the various entities.

Since the entire population is not obliged to be part of the POS until the year 2001, the actual size of a potential higher tier market is difficult to measure. But, given Colombia's population of some 38 million (3rd largest in Latin America behind Brazil and Mexico), this could represent a substantial opportunity in the region. This will certainly be a sizeable opportunity should the nation's somewhat turbulent political past improve.

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Life in China: Part One

by Cao Qing Yang, FLMI

Editor's Note: Executives who attended LOMA's 1998 Strategic Issues Conference were given up-to-the-minute briefings on a number of emerging insurance markets in the Asia-Pacific region. Here's what one expert had to say about the People's Republic of China.

This article is reprinted from LOMA Resource *with permission. The second half of the article will appear in the next edition of* International Section News.

This year, mainland China's life insurance industry is half a century old. It has been a very interesting 50 years—especially the most recent 15, which have been characterized by industry reform, open markets and economic development.

Launched in 1949, the life industry thrived in the People's Republic of China (PRC) until 1958, when all operations were suspended. In 1982, they resumed, although life insurance premium income was very low at RMB¥ 1.59 million (approximately US$ .19 million) and the state-owned People's Insurance Company of China (PICC) dominated the market with a 90% + share of business.

Since then, dramatic change has occurred in the PRC's life insurance industry, the evolution of which has occurred in three distinct phases. The result? During the past 10 years, life premium income has grown, on average, 40% per year; in 1997, it grew 82% to RMB¥ 60 billion (US$ 7.3 billion). In addition, more and more Chinese have begun to recognize the importance of life insurance and the industry has become a popular career choice among the young.

The emergence of the PRC's individual life insurance market can be attributed largely to the establishment of Beijing-based PICC in 1949. At that time, PICC's life insurance department was in charge of the company's life operations. In July 1996, PICC was organized, becoming PICC (Group), with RMB¥ 20 billion registered capital, RMB¥ 102.9 billion total assets, and three wholly-owned subsidiaries: PICC (Life), PICC (Property), and PICC (Reinsurance). At the time of the reorganization, PICC (Life) had RMB¥ 1.5 billion registered capital and RMB¥ 74 billion total assets.

PICC (Life) currently has 1,561 branches at or above the county level, an 851-person business department, 40,000 regular employees and 180,000 agents. Its contributions to mainland China's life insurance industry are immense—among them, launching the country's life insurance market, training managerial per- sonnel for the life industry, providing the industry with examples of basic contract provisions, and formulating mainland China's first life insurance mortality table (1990-1993) on the basis of its experience data in 1995.

Another important driver behind the rapid development of the PRC's individual life market has been the agency system for product distribution—a system all domestic life insurance companies have adopted. In 1996, there were only 140,000 life insurance agents, and they generated RMB¥ 5.5 billion of premium income (16.7% of the country's total premium income). The following year, the number of life insurance agents skyrocketed to 350,000 and they generated RMB¥ 21 billion of premium in- come (35% of the PRC's total premium income).