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An Example of Evolution of Health Plans in Panama

by Concepcion Moreno

Insurance companies in Panama have the responsibility to assure positive results in all the lines of business by offering products that contribute to the financial solvency of the company, guaranteeing the conditions established in the policy and the timing payment of the current and future liabilities of our insured.

As a consequence of high-loss ratios, the insurance industry has been forced to raise the premium charge for medical plans and look for cost containment by other means. The health loss ratios (not combined ratios) have been 75.5 percent, 73.7 percent, 70.1 percent and 66.4 percent at the closing of the years 1999, 2000, 2001 and 2002. The combined loss ratios exceeded 100 percent when adding the direct and administrative costs.

Periodic evaluations of loss ratios are required to establish positive and negative tendencies when a marketing strategy is not reaching the product target sales. Corrections such as evaluating policy conditions or increasing premiums per plan need to be made promptly.

Health insurance products found in Panama are mostly indemnity plans. During the last decade, the market has started to focus on managed care rather than indemnity plans as a way to provide health care to the insured. The health provider has to participate in the management of the risk so that the insurance companies can lower costs. It is a long road towards the evolution of health products.

Until this moment, some Insurance companies continue to only offer indemnity plans for local medical care and use provider networks for medical treatment abroad. Their main responsibility has been to pay for the claims received upon review of the conditions and terms of the policy. Their major concern has been to the finance medical costs to the insured, but the market is still moving ahead to integrate financing and delivery of the care to control costs and to measure effectiveness and efficiency of that care. The health perspective for the future will be to focus not only on the individual but the population in general.

Below is a brief five-year history of the healthcare in Panama:

- Major medical plans were introduced with low deductibles—$100, $200, $500 and $1,000.
- Due to high combined ratios, premiums were increased for the whole health portfolio.
- Premiums were increased individually for each policy with a high loss ratio depending on table.
- Insurance companies were moving towards higher deductibles—the lowest was $500 and the highest was $5,000—and then they moved to a minimum $1,000 deductible.
- Tighter underwriting measures were implemented to keep costs down.
- Deductibles for claims abroad were introduced from $5,000 - $10,000 as a cost containment measure.
- Products limited to only local coverage were introduced in the market. Before this, plans had local and international major medical.
- Insurance companies review their premiums once every two years and increase them if needed.

Insurance companies have complied with Insurance Law No. 59 of July 29th, 1996, regulated by the “Superintendencia

de Seguros y Reaseguros" (regulating body). This law states that they are responsible to abide by technical principles of premium equity and sufficiency using of statistical bases to set the premiums and have adequate reinsurance agreements.

The health potential market is 250,000 prospects for a health plan. The health insurance market share per company as follows: ALICO leading the market with 24.63 percent, followed by ASSA with 19.03 percent and third is ASEGURADORA MUNDIAL with an 18.50 percent. ALICO and MUNDIAL use managed care, using providers contracted, while ASSA concentrates on indemnity plans.

We understand that the measures taken in the past have relied only on financing the medical cost but this technique has a ceiling, and we have reached the limit. The direction that the market should take is towards managed care, balanced between financing and delivering medical care.

Up-to-date the insurance companies have focused on the general development of the health care business:

• **Appropriate underwriting.** The business practice has been to support underwriting on the basis of medical opinions through permanent exclusions on the policy. Working sessions with the health underwriters to absolve any questions before accepting a risk. The conditions have been revised as a cost containment for catastrophic diagnoses.

• **Portfolio Revisions.** Insurance companies constantly review their health portfolios to track changes in tendencies.

• **Effective claims adjudication.** Internal auditions are done on the claims departments to match procedures and treatments with diagnoses.

• **Health Committee.** The main goal is to improve medical administration through acknowledgment of medical necessity, exclusions needed on the conditions and price recognized by the company about procedures and treatments.

Some insurance companies have developed their own preferred provider organizations (PPO) to control costs and utilization of services. Few insurance companies have used an exclusive provider organization. The arrangements in place only service the local market.

Problems with providers have risen over service fees set by the insurance companies. The growing strength of managed care in Panama is affecting our nation's health care delivery. The physicians cannot afford to avoid participating in managed care even though the fees they receive are lower than the fees they received in the past. They have to understand that in health care delivery, there are few players—the patient, the health provider, the insurance companies and the government. The provider's request is to charge the same service fees received before managed care. On the other hand, the insurance companies are trying to produce the lowest-cost delivery of quality care.

Meanwhile, the market is more interested in adopting more advanced medical-management techniques. We are beginning to realize the relationship between financing and delivery of medical care and are interested in developing products and internal teams to work with the medical community. The following managed care concepts and strategies to improve the results have been discussed and some have been implemented:

• Medical staff revises cases where the patient has been hospitalized over the average length of stay. For chronic cases their standard of living is improved by keeping them at an earlier stage of the illnesses. For catastrophic cases, medical care is encouraged on a specific medical center by pre–authorizations or certifications.

• Negotiate discount prices with the medical providers.

• Introducing preventive medicine to improve the health of our insured as routine exams.

• Improve the technology to reduce administrative process and to transfer these savings to the insured. Improve

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data capture to include more detail, which is essential for the evolution of the health insurance in Panama.

- Provider contracting with the physicians one by one to set service fees to maintain a PPO.
- Retrospective auditing of select high volume carriers to look for "best practices" and trending of claims for utilization.
- Have a claims expert to review the claims, which contributes to the effective claims control on local claims.
- Focus on medical management from the perspective of the individual patient.

There is an increasing need of managed care since the current Panamanian economy has encouraged the use of government medical services instead of private medicine. There is an area of opportunity for the insurance industry since the low-to-middle class population need quality medical care and the government does not have the capabilities to supply the medical services they require.

We are at the edge of a change in the healthcare insurance, which is developing towards a population focused and based on statistics to improve underwriting. Establishment of management solutions such as gatekeeper models, contract relationships where providers give more formal feedback on claims trends. Access to network providers are encouraged through incentives to high-quality facilities instead of enforcing penalties for not using in-network providers. We are also working with the government medical services to provide quality health care to the population, especially on the catastrophic diagnoses affected to the population as a whole. There are cancer foundations that work with the Panamanian Government to provide health care to the afflicted population. The insurance industry should take a major role on the health care focusing on the population and not on individual cases. □

Concepcion Moreno is at ASSA Compañia de Seguros in Panama. She can be reached at cmoreno@assanet.com

An Update on Taiwan's Insurance and Actuary Community

by Won Low Ho

The 2002/2003 year has been exciting for Taiwan's insurance industry. Though this is due, in part, to both the slowdown of the global economy and the host of difficulties within the country, there are also external factors contributing to the transformation of the industry. Below are a few issues that need to be addressed.

Confronting the globally persistent, low-interest environment has become one of the top priorities for Taiwan's life insurance industry. The mismatch between assets and liabilities is caused by different factors, including the shortage of reasonable domestic long-term bonds. The recent liberation of foreign investment restrictions may aid the situation.

The passage of the Financial Holding Company Act in 2001 has essentially torn down the barriers in the financial services industry, mainly involving the banks, the insurance companies and the security firms in Taiwan. Merger and acquisition activities have been frequent during the past two years. The search for alternative distributions is gaining popularity. The launch of investment-linked products in 2002 created some opportunities for the life insurance industry, but further complicated the financial services environment.

Taiwan's insurance solvency standard requirements will be replaced by a Risk-Based Capital (RBC) system by the end of 2003. The structure of this system basically follows the U.S. model, with Taiwan-specific considerations included. This system is a more applicable regulatory tool and will hopefully drive individual companies towards a more prudent management focus as they strive to avoid regulatory intervention.