International Section News

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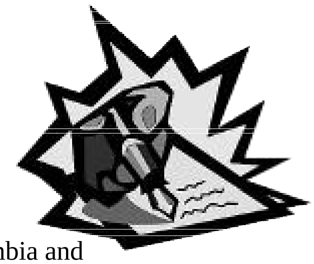
Editor's Note

by Kevin M. Law



As this issue marks the end of my second stint as editor of *International Section News*, I would like to express my appreciation for the substantial amount of support and assistance received from the International Section Council, both current and prior members, plus the two assistant editors, Randy Makin and Chiu-Cheng Chang. These individuals not only consistently helped to identify topics and authors for the publication, but several also contributed articles themselves.

After serving as assistant editor for the past two years, Randy Makin will assume the editor's role beginning with the next issue. Randy's interest and enthusiasm bode well for the future of this Section's newsletter.

In this issue, Paul Donahue presents in the lead article an overview of Stable Value options for defined-contribution pension plans. He describes the attributes of these programs that are attractive to investors and contrasts the environment and issues concerning these plans in the U.S. with the situation in other countries.

Beginning with Chile in 1981, a number of Latin American countries have implemented major changes in their social security systems. According to my observations, most of the attention has been focused on the overhauls made to the pension component of the social security programs. In this issue, however, "An Overview of Health Care Privatization in Latin America" contains a summary of the modifications made to the health care portions of social security in four Latin countries: Mexico, Chile, Colombia and Brazil.

Rod Mangrum's article "Ley Cien (Law One Hundred) in Colombia" presents additional information on the health care aspects of the 1993 Colombian legislation that reformatted social security in that country. Rod includes supplementary background information and specifically addresses the opportunities for the insurance industry that were created by this reform.

"Life in China" on page 10 contains a comprehensive description of the life insurance industry in mainland China, which has experienced an exceptionally high growth rate during the 1990s. In this

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article, which will be continued in the next newsletter edition, several different aspects of the Chinese insurance industry are addressed: industry growth, products, distribution and management issues.

The second part of Chiu-Cheng Chang's and Geraldine Chen's article "A Social Security System for the 21st Century," appears in this issue. The authors first review summarized significant secular trends that will continue into the next century, which was covered in depth in the June 1999 *International Section News.* Then they proceed to document the drawbacks of pay-as-you-go social security systems in the context of these trends and describe the essential characteristics of social security programs well suited for the 21st century.

The final topic to be addressed in this column is not a new one. I would like to take advantage of one last opportunity to encourage Section members to contribute material to be published in the newsletter. My discussions over the years with actuaries involved in the international arena have convinced me that many Section members have expertise and experiences that would be of great interest and value to readers of this publication. As stated in the last edition, while we frequently have a significant amount of very good material, we never have an excess of articles for the newsletter. Please consider submitting an article to *International Section News.*

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An Overview of Health Care Privatisation

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employers, employees and the government, and it was designed to cover health, maternity, short and long term disability, old age pensions, etc.

Although the IMSS law originally provided for employers to opt out of the system in favor of a private organization-sponsored program, only a few companies took advantage of this provision. The most notable exception was commercial banks that gained this concession in 1957. Other companies opted out of the IMSS either because they already had an organized health care service program for their employees prior to the appearance of the IMSS (e.g. the state oil company PEMEX), or because they operated in remote areas where the IMSS had no facilities (e.g. mining companies). Entities that emerged after the creation of IMSS and that offer health services to well-defined sectors included ISSSTE (for government employees) and ISSFAM (Military Forces). People with the lowest incomes who were not affiliated with any of the organizations above could approach public health institutions such as SSA (Secretaría de Salubridad y Asistencia), the Red Cross, or INI (for indigenous people).

In 1996 the social security law was reformed. As a result, some of the contributions collected for pensions are now administered by private sector AFORES (Retirement Funds Administrators), where every member has a personal account for retirement. This reform has increased the financial strain on the IMSS administration since funding for health services is insufficient and had been subsidized by retirement funds. Furthermore, due to the lack of cost control measures, inflation in drug, medical equipment, and hospital costs continues to increase in Mexico at a rate of 15% or more per year.

New measures are necessary to improve the quality of health care services available to all citizens of Mexico. Patients and providers lack confidence and trust in the health care system. Although theoretically every citizen is covered by public health services, an important percentage of the total population has no access.

In April 1999, the Mexican government developed legislation that (1) describes how qualified organizations should establish themselves as insurance companies in order to offer comprehensive health coverage, and (2) stipulates which authorities will regulate their management. By the middle of 2001, these companies must be working as independent entities that offer health services. This proposed legislation has been approved by the House of Representatives, but not yet by the Senate. Even so, in early 1999, one of the health insurance market leaders had already set up an independent company offering comprehensive health insurance coverage on an individual and group basis. Once this law is approved, the Mexican government, in coordination with the IMSS, will establish rules to regulate the exit of individuals or groups from the IMSS health care program, a process referred to as "subrogation of services with fee reversal" ("reversión de cuotas"). This could take place after the presidential elections in 2000.

It is difficult to predict the extent to which privatisation of Mexico's health care system will fuel the market for private health care plans, health care insurance products, and reinsurance coverages. However, as the number of private major medical expense policyholders now represents less than 3% of the total population of Mexico, health care privatisation is likely to bring enormous opportunities to industries involved in health care.

Currently, the market for major medical expense insurance on an individual basis has 522,466 lives insured, with US$200 million in premiums, which is an average annual premium of about US$400 per member. On a group basis there are approximately 1.8 million lives insured, producing US$270 million in

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