Trends and Developments

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Introduction

The COVID-19 pandemic has marked a worldwide watershed in the way we live and work and has pushed millions towards rethinking core values that have been eroded by the ever-accelerating pace business and technology. Health was a core value many took for granted and it was seldom that one would give much thought to the line "I hope you are well". Now, those words are offered more sincerely, not knowing whether the addressee has been touched by COVID-19, either contracting it of suffering a personal loss.

From an institutional standpoint, the concern about health in the context of COVID-19 has surrounded healthcare services and medical response to overwhelming inflow of infected patients. The desperate need for trained physicians, nurses and support staff and of medical equipment and devices, with respirators and protective gear has become evident to most laypersons.

There is, of course, a more profound impact that is less obvious to the bystander but that is taking a heavy toll on the healthcare industry. Many hospitals in the world have had to make tough calls in allocating the precious, insufficient resources for treating COVID-19 using triage protocols, prioritising the expectant survival of patients. Insurance companies in the health and medical expense lines of business around the world have also met the challenge of allocating precious and scarce resources: with capital and reserves dwindling as a result of market uncertainty, they have had to strike the delicate balance of honouring claims while steering clear of cost excesses inflated by the exponential demand for healthcare services.

Mexico has not been an exception to tensions between the healthcare and insurance industries brought about by COVID-19. Such tensions have been building up over the last few years and it is reasonable to expect that the COVID-19 crisis will be an inexorable catalyst.

Overview of Public Healthcare Access in Mexico

Mexico's healthcare system is segmented and disarticulated. One of the primordial paths for healthcare access in Mexico is through the Mexican Social Security Institute (*Instituto Mexicano del Seguro Social* or IMSS), which operates the largest nationwide healthcare system. Membership to the IMSS is available to employees of the private sector and their families (ie, persons that are economic dependents of the employee). Employers and employees have a statutory obligation to make a fee contribution to the IMSS – the nature of which is akin to a tax obligation – which is complemented with funds contributed by the federal government. The IMSS healthcare system is also available to those who voluntarily decide to enrol.

Federal governmental employees are entitled to receive healthcare assistance from the Institute for Social Security and Services for State Workers (ISSSTE). Other government institutions also have their own social security system such as the state-owned oil company PEMEX, the Ministry of National Defense and the Navy Ministry. Social security systems also co-exist at the state level.

For persons that do not qualify for consultation or treatment at one of the various social security systems described above – who, generally speaking, belong to the large segments of informal economy and to the unemployed – there is a universal healthcare system that affords them access. Such universal healthcare system is run by the Heath Institute for Wellbeing (*Instituto de Salud para el Bienestar* or INSABI), which was launched in January 2020.

INSABI is a project of the current federal administration and is expected to progressively provide general medical assistance to up to 69 million people, without restriction. The INSABI has superseded the "Seguro Popular" healthcare access system that was put in place during the previous federal administration to cover persons outside the social security systems. Unlike the "Seguro Popular" system, which was specifically funded on the basis of a risk model covering certain illnesses and treatments, the INSABI contemplates universal access and a federal budget based system. This will be a challenge considering the historic healthcare expenditure by Mexico which for 5.5% of GDP in 2018, the lowest for any of the larger Latin American economies excluding Venezuela (ie, Brazil 11.8%, Chile 8.8% of GDP 2018).

Private Health Insurance in Mexico

Private health insurance companies play an important role in any healthcare system. They provide an alternative mechanism for the financing of healthcare, the development of health infrastructure outside government spending and facilitate the access to physicians. In Mexico, however, insurance – including health insurance – has very low penetration rate.

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There are two kind of insurance companies focused on healthcare in Mexico, those referred to as Insurers of Major Medical Expenses (*Aseguradoras de Gastos Médicos Mayores*) and those referred to as Specialised Health Insurers (*Institución de Seguros Especializado en Salud* or ISES). ISESs cover comprehensive medical care, including both the preventive medicine and medical treatment, whereas Insurers of Major Medical Expenses focus on covering treatment expenses subject to deductibles, co-payments and excluded expenses. Although preventive expenses have been added to the coverage offered by Insurers of Major Medical Expenses the business model of these companies is not oriented towards prevention as a way to better control treatment incidence.

The Push for ISES

The legal framework for ISESs was introduced in 2000 to regulate some pre-paid medical services companies that were in operation at the time which were insufficiently funded and unsupervised. This situation posed a risk for consumers who lacked protection in terms of service standards. Of particular concern was the prospect of underfunding of these services companies, which could lead to insolvency and thus leave consumers' healthcare needs unattended in the middle of life or death circumstances.

From a policy perspective, ISESs were expected to fill the gap for a part of the population that did not have access to public healthcare and paid for medical contingencies with out of pocket money. ISES were also expected to reduce the burden for the IMSS from an ever-expanding membership base by receiving the statutory IMSS contributions payable by employers to employees and thus afford the corresponding medical services. The legal and regulatory framework that would have allowed ISESs to discharge the overcrowding of IMSS services – and could have given ISESs the volume of business needed to grow and expand – was never implemented.

By 2002, the ISES market had shrunk from 14 participants to 10 and has not had a significant growth since. While preventive and prepaid healthcare models have been successful elsewhere in Latin America, that has not been the case in Mexico. An example of this regional divergence was Salud Coop Mexico, an affiliate of a Colombian cooperative company that was established in Mexico in 2005 and did not have good results. Its insurance licence was cancelled in 2012 after suffering a steep shortfall of premium payments resulting from the liquidation of *Luz y Fuerza del Centro*, a public power utility from which it had managed to recruit a relevant number of insureds.

As of today, the tally of authorised ISES has not changed: there are currently ten authorised ISES with a small to medium business portfolio. Three of the authorised ISES exclusively provide dental health insurance. This is a dire result 20 years on, considering a Mexican population upwards of 120 million and a public healthcare system that is being stretched beyond its capacities.

The Major Medical Insurance Market

The market served by carriers selling major medical expenses is quite different to that of ISES, both structurally and from a product perspective. Large carriers that hold a grandfathered licence for life and non-life lines of business have important major medical expense portfolios. There are some newer medium size platforms active in the major medical expense market that lack a grandfathered multi-business licence and hence have a less diversified portfolio. There are currently more than 20 insurance carriers that operate the major medical expense line of business.

The cost of major medical insurance has prevented it from reaching large segments of the Mexican population. If acquired on an individual basis it is an extremely expensive product with very restrictive underwriting criteria that often times results in rejections or exclusions. When sold as a group policy, major medical insurance is less expensive, rarely results in coverage rejection of group members; on the other hand, large and medium companies have found it to be an important tax efficient asset from a human resources perspective.

Major medical insurance has evolved, primarily, as a compensation package tool used by employers. For instance, it is a compensation baseline among competitors in certain industries and businesses (ie, financial services, consulting). In some other industries major medical insurance is offered to certain ranks of the workforce (ie, management, office staff) to attract and retain talent, while maintaining other ranks that do not expect that type of compensation under the government social security system. To the extent the group policy affords uniform benefits to the insured members within the same rank it can also afford the employer a tax-deductible treatment for premiums paid.

Insureds and insurers

From an insured's perspective, major medical insurance is desirable as it allows access -that is extensive to her/his dependents- to private hospitals and healthcare institutions, as an option to the overstretched government healthcare services. For the average person, however, it is an onerous type of coverage given the high deductibles, co-payment terms, caps on hospital and physician fees, and convoluted claims processes, especially when not using a stipulated healthcare network. Hence the "major" adjective used to refer to this line of business; insureds use the product when affected by major health issues and less so for non-serious illnesses or afflictions or preventive medicine.

Therefore, market participation of insurers in the major medical expense line of business is closely linked to performance of the employment market in certain segments. Moreover, it is a market that is swayed by the financial decisions of employers, who are constantly seeking lower premiums for similar benefits, while, in principle, it is a benefit that is difficult to withdraw altogether thanks to protections afforded by Mexican employment law. Nevertheless, from an employee's perspective the change or loss of employment may imply losing coverage.

Recent developments

A recent development highlighted the fact that major medical insurance is more about employee compensation than a universal healthcare access product. When the federal executive administration took office in December 2018, it announced steep budget cuts in government as part of an "austerity" policy. As part of this drive, the federal executive presented a bill before Congress that was enacted in November 2019 which prohibited the contracting of insurance as a benefit for government employees. As a result, the major medical insurance book of business that was placed among high and middle ranks of the Federal administration collapsed with severe effects on Mexican insurers participating in that line of business. This was certainly not a prospect back in 2003 when Met Life acquired the federal government's major medical insurance carrier.

Tug of War: the Tension Between Insurance Companies and Healthcare Providers

A dwindling major medical insurance market has coincided with a pressure on insurers to increase the cost of the premiums: healthcare costs, the claims experience and inflation adjustments are the main factors that drive premium prices.

Technology

The evolution of technology in the healthcare space has brought about new medicines, treatments, pioneering specialties, new types of exams and innovative equipment. All of this has had an important impact in the increase of medical costs. Also, thanks in part to these technological developments, people are living longer and chronic diseases require continuous medical attention for longer periods. Insured patients demand the latest available solutions to their problems as it is a widespread feeling that they should get their money's worth for premiums paid.

These dynamics from within the private healthcare industry places hospitals, physicians and the private healthcare industry at odds with major medical insurance carriers. Private hospitals and doctors are faced by the challenge of providing the best possible medical solution in the most cost-efficient manner. There is, of course, a widespread practice of overcharges to patients that have medical insurance and inflated medical bills which has pitted insurers against private hospitals.

Hospitals, in turn, tend to believe that insurance carriers are not settling claims appropriately and that the caps they impose on fees are not consistent with reality. Of course, insureds get the worse part of this tug of war as they embark on incomprehensible journeys into exclusions, co-payment, deductibles and other terms that are commonly found in major medical expenses policies

Ongoing crisis

Claims experience attest to the ongoing crisis in the major medical expense market in Mexico. According to a statistical analysis issued by the National Insurance and Bonding Commission (*Comisión Nacional de Seguros y Fianzas* or CNSF) in 2018, the average claims ratio for major medical expenses insurance was around 75% of the collected premiums. Considering the acquisition and administrative costs, such claims ratio number reflects that this line of business was already unsustainable for many insurers. COVID-19 claims will likely have made matters worse.

Finally, there are external factors that also have an effect on premium costs and add pressure to this already stressed environment. On the one hand, inflation in Mexico has remained relatively low for the past several years. On the other hand, investment yields for insurers who are constrained to a conservative mix of investments by applicable regulations have not been rosy.

The Perfect Storm

According to INEGI (Mexico's National Statistics Agency) in 2021 Mexico will have a population of 134 million, 6% more than in 2018. Life expectancy at birth has increased steadily since 1970, being currently 75.4 years. This reality has pushed the current Federal administration to rethink public health access policies.

After two years in office, in January 2020, the Government of President Andres Manuel Lopez Obrador was finally rolling out its rehashed version of a universal public healthcare system managed by the newly created INASABI. The Federal Government had also spent substantial efforts and resources during 2019 in the restructuring of the pharmaceuticals distribution system for supplying the Federal Government's healthcare system. It was precisely at this juncture that the SARS-COVID-19 pandemic hit Mexico on March 2020 with devastating effects. As of early January 2021, official numbers – which have been criticised for an undercount – talk about more than 135 thousand COVID-19 deaths and more than 1.5 million infections.

Many Mexicans have been facing tough decisions as the COVID-19 pandemic continues to rage-on and the vaccination campaign against COVID-19 slowly starts to take off. As of early

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January 2021, public and private hospitals in several regions of Mexico -including Mexico City- have little or no capacity left for treating COVID-19 patients.

In this context, the decision of seeking treatment in public or private health centres is literally life or death. While government hospitals claim to have available beds for receiving patients, the reality is that public health institutions face a dire shortage of the necessary equipment (ie, protective equipment for medics, ventilators) and trained staff; hence the reportedly elevated death rate of patients taken into intensive care units at such hospitals. The alternative of seeking COVID-19 treatment at a private medical facility – if at all available at this point in the pandemic – without the financial coverage afforded by insurance will result in a severe financial downturn for the patient and their family.

Insurance in Times of COVID-19

Pre-COVID-19, a study published by the Mexican Insurance Companies Association (*Asociación Mexicana de Instituciones de Seguros* or AMIS) 560,000 families in Mexico were already facing economic difficulties due to medical expenses arising from health problems of one of its members. Post-COVID-19 this figure is likely to have swelled dramatically.

The trend for life and health insurers in Mexico has been to confirm that COVID-19 is within the terms of coverage of their issued policies. Although the terms of most insurance policies contained a pandemic exclusion -which was, in most cased, drafted in unclear and ambiguous terms- some insurers have issued notices waiving such exclusion and thus COVID-19 coverage has generally been afforded to insureds.

The most expensive COVID-19 insurance claim reported so far was for MXP21.4 million (approximately USD1 million) while the average claim is around MXP370 (approximately USD19,000). Although scarcely 1.5% of the COVID-19 cases in Mexico are insured, pandemic related claims are currently ranking sixth among the ten most expensive catastrophic claims in the sector in Mexico, while the crisis is still far from over.

For Every Dark Night, There is a Brighter Day

The good news is that the challenges describe above are well known by the insurance industry and new alternatives powered by the insurance sector start to become available. Due to the epidemiologic and demographic characteristics of Mexico, there is an increasing demand for medical services that cannot be provided solely by the public healthcare system, which represents an opportunity for insurers.

New lines of business are being designed on service-based models, including innovative products using technology and a greater focus on preventive medicine. Some noteworthy examples that aim to offer insurance and health care from a new perspective in a more integrated way, include the following:

- Axa Mexico has launched a joint Venture with Keralty operating primary care clinics to offer an affordable private health to a segment of the populations that has been underserved in terms of insurance.
- A new digital ISES called Sofia Salud is a start-up that relies mostly on telemedicine consultation and funded with private equity.
- BUPA recently announced the acquisition of Vitamédica one of Mexico's largest medical and hospital managers (that used to be an ISES).
- Cardif launched an ecosystems model where digital added value solutions are offered to insureds depending on the insurance purchased. Regarding the health ecosystem a pre-diagnosis digital app is offered that provides immediate guidance depending on the symptoms.
- COVID-19 insurance, offering a fixed sum with no adjusting nor deductibles is currently being offered through online means only by an insurtech broker known as Super.

What is Next?

No one can make predictions about long-term changes stemming from the pandemic. However, digitalisation in the healthcare industry, accelerated by the sanitary crisis, is here to stay. Growth will come from new service-based models, innovative products and a greater focus on prevention. Innovative schemes integrating hospitals, lab services, pharmacies and insurance companies will continue in the agenda in the next few years.

The challenge of managed healthcare is to provide integral care while keep costs efficiently managed and under control without limiting the patients' rights for choosing the doctors they trust. There should also be a healthy mix of the premium rates, the number of insureds and available infrastructure. There are also complex issues that are yet to be addressed: initiatives should not make insurance less affordable for less healthy insureds that can easily be discriminated. Coverage for the elderly people is also a major challenge.

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