

Health Insurance in the Cayman Islands

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There is really no magic to insurance; the principles designed over 600 years ago still work today. The rule is very simple, “the claims of the few are paid from the premiums of the many”. If claims exceed the premiums received then the company loses money, this unfortunately is the dilemma facing the local health insurance industry. The problem is that most consumers believe in the “old wives’ tale” that insurance companies have deep pockets and should on all occasions be ripped off by the consumers and any other group that insurers do business with. The insurance industry, like any other in a system of free enterprise, operates to make profits, and if it does not, then it cannot continue to provide its service. Over the past 6 years of trading, the health insurance industry in the Cayman Islands has failed to produce a profit. Why did this happen? Where did the health insurance industry go wrong? Premiums have increased from \$7,878,155 in 1997 to \$38,962,533 in 2002 and these increases have not been sufficient to cover losses. If we, the health insurance industry, continue in this manner we run the risk of not only destroying the local health insurance industry, but at the very least we would move the cost of providing health care beyond the capability of anyone, but the very wealthy.

This situation is certainly not unique to Cayman, as the provision of affordable health care happens to be a major problem in most of the major economies throughout the world. Medicare, without immediate reform will go bankrupt in 2008, and with 77million 'baby boomers' retiring over the same period it would appear that the reform that the 'political will' is prepared to embrace will not be sufficient to correct the decline. Both the British and Canadian systems, while not as bad as Medicare, are also in need of reform. The Caribbean and Latin American regions have seen the withdrawal of all the major insurers and re-insurers from their market as a result of continued losses. At the present rate of decline, we, the health insurance industry in Cayman appear to be heading in the same direction as 'Medicare'. Is this problem correctable? Possibly, but before attempting to analyze the problem, there is a need to look back at some of the reasons why the industry is at this juncture.

The Infamous Gold Health plan underwritten by Lloyds of London

This plan was introduced in 1998, and offered consumers full cover, with no deductibles and no co-insurance. Consumers in the Cayman Islands gravitated to this plan as 'bees to honey'. This plan obviously had very little likelihood of success, as the cover offered was far too rich. One reason offered for the demise of this product, was the 'so-called abuse' by the

consumers. Perhaps I can suggest a theory of what went wrong with that plan. In year one, new business growth kept pace with claims, at the end of year one new business development declined as most consumers had already joined this wonderful plan, the premium curve began to level off, unfortunately, the claims curve continued on it's northward journey. Could this plan have worked? I personally believe it could have, had the correct premiums been charged, my own estimation would be \$500 per person per month, obviously unsustainable. The health insurance industry has known for years that claims control initiatives are mandatory for any sustainable health insurance program. Apart from the failure of the 'Gold Plan' that created a 'black eye' for the health insurance industry, the far greater damage to the industry, was the loss of consumer confidence and an obvious increase in consumer expectation from the health insurance product.

Following closely behind the failure of the 'Gold Plan' was the Caribbean Home plan for the civil servants. The failure of Caribbean Home plan can be attributed to a number of factors that interestingly enough are quite similar to the failure of the 'Gold Plan', the cover offered was far too rich and the premiums were far too low. Once again the health insurance industry received a 'black eye', and once again the consumers were left to question the competence of the local insurance industry.

Over the six or so years that health insurance has been mandatory, the number of players in the local health insurance industry has fallen from 11 to 5 or 6, with two new companies entering the market this year. One of the problems facing the industry as a result of the many failures is the continued support of the re-insurance industry. As the ‘managers of the fund’ the re-insurers hold us, the health insurance industry is responsible for both the success and the failure of the industry, it is our collective responsibility to ensure the sustainability of the health insurance industry. We are the ones with the statistics, we are the ones with the product knowledge, we are the ones paying the claims, and we are the ones collecting the premiums. It is therefore our responsibility to ensure that proper communication is maintained with the consumers. We cannot allow incorrect information to go unchallenged and we must ensure that persons in a position of responsibility in our society do not make irresponsible statements that can be construed incorrectly by the consumers. By way of example, after the increase in the hospital fees earlier this year, the Minister of Health made the comment that the insurance industry ‘is only looking for an opportunity to jack up the premiums’. While this was a rather unfortunate statement, it is probably fair to presume that the minister did not have the facts, possibly because we failed to ensure that he knew the facts. While we must accept this

responsibility, we are but a small part of the equation and each player in the system must play their part in ensuring that the provision of health insurance in the Cayman Islands is conducted in a professional manner.

Legislation

We are in discussions with the Ministry of Health on the proposed amendments to the Law and Regulations. We recognize the need for changes and in a paper produced for the ‘Journal’ we expressed the following view:

“The Government of the Cayman Islands can also do its part to ensure that the industry is allowed to prosper once again by enacting and amending laws that are relevant in today’s market. Indeed, the Government has recently commissioned a standing committee of the Legislative Assembly to examine if changes are to be made to Health Insurance Law and Regulations, a long overdue process that can only help to establish an environment in which everyone benefits”.

The discussions did not get off to a very good start as the views expressed by the insurance industry were ignored in favor of a conflicting opinion given to the Minister of Health by a consultant. The advice given to the minister was to the effect that the local health insurance industry was hiding behind re-insurers by objecting to certain changes proposed and that the re-insurers only involve themselves with losses in the \$500,000 region

and above, and re-insurers expect insurers to be adequately capitalized to cover the attritional losses.

The health insurance industry have several concerns with the series of events leading to the minister's statement, firstly, the information given to the minister was incorrect, and secondly, the minister acted on that information without further discussions with the industry. I cannot speak for other insurance companies on re-insurance treaty agreements; however, as President of **Cayman General Insurance (CGI)**, the only insurance company in the Cayman Islands underwriting health insurance business and exposing its own capital, we protect the health portfolio with a 30/70-quota share program, the re-insurer pays 70% of all losses; if we elected to change its re-insurance program from the present quota share structure to an excess of loss protection, the impact on our balance sheet would be devastating. Our solvency ratio would immediately be impacted, requiring its shareholders to invest further capital in the company; the return on equity would fall to an unacceptable level. The domino effect would begin with A.M. Best downgrading our rating, and end with me losing my job; the in-between part I will leave to your imagination. Not only was the advice given to the minister incorrect, but also it showed a complete lack of understanding for the business of insurance in this market. This remark could have had a

devastating impact on the continued viability of the local health insurance industry, as the minister allowed items to remain in the law that would have caused re-insurers to withdraw from the Cayman market. It must be remembered that while Government has control over the local health insurance industry, and could force the industry to comply with the changes to the Law, they have absolutely no control over the re-insurance industry and the local health insurance industry could not survive without the support of the re-insurance industry. Having already withdrawn from the entire Latin American Market, withdrawing from our very minute market with its many problems, would certainly not give re-insurers any sleepless nights.

The re-insurance industry plays an extremely vital role in providing the health insurance product. The very first rule of insurance is that claims must be paid from the premiums collected and not from capital, this is true whether you are the size of the AIG, the largest insurance company in the world, or the size of one of our local companies. The only way to protect the integrity of the fund (premiums collected) is by a risk transfer mechanism called re-insurance. To explain how re-insurance works, let us examine the problems facing the Ministry of Health with its responsibility for providing health care to the civil servants etc. The Ministry will establish a budget at the beginning of the year, if they are lucky, losses may not exceed the

budget, but in most years the budget is spent before the end of the year. The Minister now has to go before the House of Representatives to obtain additional funds. In the absence of a crystal ball to predict the actual losses, then such a scenario is completely understandable, but the government, as with any other business, would prefer not to operate in this manner and would buy re-insurance cover to protect their fund. You will quickly ask why this has not been done; the answer is very simple, they do not have the needed statistical data that re-insurers would need to calculate a premium for the risk. The re-insurance cover would limit the losses to the fund, thereby allowing the fund (budget) established at the beginning of the year to cover the losses incurred during the year, whether these losses exceed the fund or not. Let us now examine the insurance industry; the premiums collected by the industry must cover a number of things:

- Payment of claims
- Administrative expenses
- Profit to Shareholders

The mathematical equation is very simple, claims costs plus administrative costs plus profit equals premiums collected, if the premiums collected are lower than the costs, then the industry loses money.

Last year the industry paid out \$14,622,387 to re-insurers, or a whopping 37.52% of gross written premiums, out of which the paid claims totaled \$11,255,344 or 77.04% of the premiums received, at a combined ratio of 114.56%, re-insurers must now add their internal administrative costs to these results. But notwithstanding the loss sustained by the re-insurers, the local industry was unable to produce a profit, with a combined ratio of 105% for 2002. But, you will ask, shouldn't the involvement of re-insurers protect the local industry from these losses? The answer is very simple the industry is controlled by agencies representing overseas companies, both the underwriting and claims processing are handled overseas, in the absence of the decision making process on the ground, decisions to correct anomalies are not made as fast as they should be, or sometimes not made at all. This in fact has been the case for the past 6 years. The other factor contributing to this problem is the increase in the cost of claims over the past 4 years. Claims have increased from \$15,955,652 in 1999 to a whopping \$29,310,356 in 2002. What is interesting with this increase is that in 2000 and 2001 included the Caribbean Home experience. Why then did claims increase so dramatically in 2002?

As managers of the fund, the local health insurance industry is not doing a particularly good job, we need to increase premiums further in order to

cover the stated costs and expenses, bearing in mind that re-insurers will want a payback for the losses they incurred in 2002. Therein lies our dilemma, premiums will have to be increased by 30% to 40% to cover all costs and produce a profit both for us and our supporting re-insurers. Unfortunately, our economy cannot sustain that level of increase; we therefore must find ways to reduce costs. Please remember, the health insurance industry are the ones paying the claims, we have no control over the process that results in the claims presented, the persons involved in that aspect of the process are the consumers and the health care providers, they are an integral part of the equation and therefore part of the problem, and must play a part in the solution. We recently heard from a client that a doctor told her that his bill, if she didn't have insurance would be \$1,500, but if she had insurance the bill would be in excess of \$5,000. This is obviously not a reflection on the entire medical fraternity, or might I add, is this behavior unique to the Cayman Islands.

In closing, I would like to mention that while I have spoken about several areas needing improvement within the local insurance industry, corrective measures to these issues are among the list of items to be addressed at our seminar tomorrow and I personally invite each of you to take the time to attend the sessions organised. You will find several answers to the questions

you have about this growing industry and lay to rest the fallacies many have created and believe about the health insurance in the Cayman Islands.