

# **REPORT REGARDING EGYPTIAN INSURANCE SUPERVISORY AUTHORITY (EISA) AND HEALTH INSURANCE REGULATION**

**Prepared by Mary Beth Senkewicz for BearingPoint, Inc.  
December 7, 2006**

## **Introduction**

Pursuant to the contract with BearingPoint, I spent approximately three weeks (13 actual working days) in Cairo. According to the contract, my tasks were to “Assess EISA existing capacity with respect to staff skills and experience both at the management and technical levels,” and to “Develop and present to EISA Chairman a plan and timetable for building EISA’s health insurance supervision department.” The deliverable is “A report detailing the outcome of EISA’s capacity assessment and the plan for building its health insurance department.” (Another task deals with training and coordinating with the health insurance advisor. He and I have conferred on that issue.) This document has been prepared to fulfill these requirements.

In the course of executing this assignment, I interviewed numerous personnel in EISA, ranging from the Chairman down through nonmanagement technical staff. (Specific persons interviewed are set forth in the USAID Exit Report.) Overall, my impression is that the staff of EISA recognizes the importance of regulating private health insurance as an essential part of EISA’s mission to protect the Egyptian policyholder. This is noteworthy because regulating health insurance is, in many respects, fundamentally different from regulating life and property and casualty insurance. The frequency of claims alone, and attendant administrative expenses to the company, sets it apart from other lines of insurance. In the managed care arena, assets of the company can include “bricks and mortar” used to deliver services, and financial oversight must take this into account.

In general, EISA appears to have the capacity, staff skills and experience to perform the functions it currently performs. The educational level of the staff is good; many of the staff has a university bachelor’s degree. Specialized training in health insurance will be required across the board. Whether that training is for existing personnel or new hires will be a decision for the Chairman.

More particularly, in order to evaluate EISA’s capacity in the context of a health insurance regulatory scheme, and to develop a plan for building a health insurance regulation unit, it is necessary to identify the essential components of that scheme:

## **Overview of Health Insurance Regulatory Structure**

Major Topic Areas of Regulation:

### **1) General Powers and Duties of the Commissioner**

- Company Licensing
- Form Review
- Rate Review
- Financial Oversight
  - Financial Analysis
  - Financial Examination
  - Financial Reporting
  - Investment Standards

### **2) Intermediary regulation**

- Intermediary Licensing
- Continuing Education Requirements

### **3) Enforcement**

- Market Conduct
- Consumer Complaints
- Marketing Materials Review

### **4) Consumer Protection**

- Managed Care Standards (where applicable)
- Unfair Trade Practices
- Unfair Claims Settlement Practices

### **5) Consumer Education**

- Public Awareness Campaign
- Educational Brochures

## **Discussion**

This report will discuss two ways to think about building a health insurance unit. The first is to integrate similar functions into existing departments (e.g. Financial Positions & Investments) and sub-departments (or units) where possible. (See Attachment One, EISA Organizational chart, [http://www.eisa.com.eg/HIRARC\\_E.pdf](http://www.eisa.com.eg/HIRARC_E.pdf)). The second is to integrate the health insurance regulatory functions into an EISA restructured by function as proposed by BearingPoint. (See Attachment Two, Proposed Organization of EISA Regulation Sector). (There is a third way, to create an entirely new self-contained health insurance department; but the Chairman has indicated he does not prefer this approach. And logically, it may not be reasonable not to isolate staff away in a self-contained

department where they might not interact with other EISA staff members who perform similar functions.)

In the first scenario, EISA presently has departments and units that perform company licensing, rate and form review, financial oversight, intermediary regulation, market conduct (to a certain extent), consumer complaints, and marketing materials review. (I will discuss consumer education below separately). Presently, these functions are spread over four of the five departments that report to the Deputy Chairman (all but Research), and an additional department that reports directly to the Chairman (Policyholders' Protection), for a total of five departments. In the restructured EISA scenario, these functions will be centralized primarily within two departments or sectors: Supervision and Regulation. (Presently the reorganization proposal has consumer complaints under the Public Relations chief in the Operational Support Sector; I recommend moving consumer complaints to Market Conduct in the Regulation Sector.)

All the above functions necessary for the effective regulation of health insurance will require specialized training. In particular, while EISA performs some rate review, there is no health actuarial expertise within EISA (or in Egypt). Additionally, market conduct examinations will be a particularly important tool in oversight of health insurance since it is a virtually new market with new products. Last, detailed financial examinations are also important in ensuring the financial stability of these companies that generate enormous numbers of claims.

### Company Licensing

EISA has a unit (Registration) within the Secretary General's division that deals with company licensing. In the reorganization proposal, company licensing falls under the Supervision Sector. Once a new prepaid health insurance law is enacted, it is likely that many of the existing 62 companies already providing health benefits with no regulatory oversight will apply to become licensed under the law. All the technical staff members that review company applications will need training in the requirements of the new law in order to process the applications for health insurance companies properly and in a timely manner.

### Form Review

EISA has two units within the Actuaries department that deals with form review. In EISA terminology, the documents are called "terms and conditions" rather than "policy forms." One unit handles life forms (Tech. Accounting Life), and the other handles non-life forms (Tech. Accounting Non-life). (These units also have other duties besides form review.) In the reorganization proposal, all form review falls under Market Conduct in the Regulation Sector. Given the differences among life, non-life, and health forms, personnel assigned to review health forms would have to be fully trained for this function. I note that approval of forms is done presently by a committee. Training for staff members involved in any approval committee would also be required, although not to the same depth as the actual reviewers.

### Rate Review

The same units above that deal with form review also deal with rate review. In the reorganization proposal, rate review falls under Actuarial Affairs in the Regulation Sector. Presently, the life unit has actuaries and actuarial students on staff. Expertise on health insurance actuarial concepts would need to be developed through education and training. This is the most apparent deficiency in EISA in setting up a health unit, and recognized by the CEO of Actuaries. My understanding is that there is little, if any, health insurance actuarial expertise in Egypt. Specialized training would have to be sought or devised. Staff should be dedicated specifically to this function.

### Financial Oversight

EISA presently performs financial oversight on life and non-life companies through the Financial Positions & Investments Department (financial analysis and investments units). It is unclear to me how in-depth the financial examination performed onsite in the Insurance & Reinsurance Proceedings Department is (Non-life and Life units). In the reorganization proposal, financial oversight falls under Off-Site Analysis and On-Site Inspections in the Supervision Sector. Expertise on health insurance financial oversight would need to be developed through education and training. If the existing organizational structure is used, the Financial Analysis unit could incorporate the health insurer financial analysis function, although specific staff should be dedicated for health; and a new unit on Health should be set up under Insurance & Reinsurance Proceedings to handle the examination function. In either the present or proposed EISA structure, in-depth onsite financial examination of health insurers should be a priority and performed by dedicated personnel.

### Market Conduct

As I understand it, EISA presently performs some onsite market conduct examinations under Insurance & Reinsurance Proceedings (Non-life and Life units). In the reorganization proposal, all market conduct activity falls under Market Conduct in the Regulation Sector. Expertise on health insurance market conduct would need to be developed through education and training. In either the present or proposed EISA structure, market conduct examination of health insurers should be a priority.

### Intermediary Regulation – Licensing and Continuing Education

EISA performs intermediary (e.g. agents, brokers or producers) licensing under the Secretary General (Regulating unit). In the reorganization proposal, all intermediary licensing falls under Licensing in the Supervision Sector. I understand requiring continuing education for intermediaries is under consideration by EISA. Intermediaries play a critical educational function in insurance markets in general, and that function is amplified in new and growing markets. Consumer must understand the products they buy. Sales must be appropriate to consumers' circumstances in order for confidence in

the products to grow. Intermediaries must have sufficient knowledge of the products they sell. I recommend that continuing education in health products be required for intermediaries to sell health insurance, in addition to initial testing requirements.

### Consumer Complaints

EISA receives and processes consumer complaints under Policyholder's Protection. In the reorganization proposal, all consumer complaints should fall under Market Conduct in the Regulation Sector. (See recommendation above about moving consumer complaints to market conduct in the Regulation Sector.) Expertise on health insurance contracts would need to be developed through education and training. I note that since health insurance is relatively rare and generally not known, there is the potential for significant numbers of complaints by consumers as the market grows due to a lack of understanding of how the products work and pay claims.

### Marketing Materials Review

EISA reviews marketing materials under Public Relations. This is a function more properly handled by technical staff. Marketing materials include advertisements, solicitation materials and application forms. In the reorganization proposal, marketing materials review should fall under Market Conduct in the Regulation Sector. If the health market grows to any degree, there could be an increased amount of advertising for health insurance products. EISA would play an important public policy role in ensuring that the marketing materials are not deceptive or misleading, and do not confuse the public. Education and training in reviewing health insurance marketing materials, and measuring them against what the product actually delivers, will be required.

### Managed Care Standards

If the proposed law on prepaid health insurance in the HMO vein passes, or if managed care is delivered in Egypt otherwise, EISA will need to develop managed care standards in the Executive Regulations. Whether the insurer lives up to those standards would become part of the market conduct examination, and thus would be under market conduct in both the present and proposed EISA structures. In a managed care delivery system, where the financial incentive is to under-treat patients, application and enforcement of standards that ensure patient care quality and fair treatment are critical. Classic managed care standards are: Quality Assessment; Utilization Review; Grievance and Appeals; Network Adequacy; and Provider Credentialing Verification. My sense from the Chairman and EISA staff is that they would want, initially, to develop standards on quality assessment, utilization review and grievance and appeals. The latter two of the five standards above could be addressed later if the market development indicated that problems were developing in those areas. On quality assessment, it is important to note that EISA's Executive Regulations would require that health plans have processes in place to assure that the plan assesses its quality controls. EISA would have no jurisdiction over actual quality of care delivered by providers – that function is within the jurisdiction

of the Health Ministry. Education and training on these standards would be needed for market conduct examiners.

#### Unfair Trade and Unfair Claims Settlement Practices

Since health plan insureds generate a large number of claims, standards regarding claims settlement practices are useful (such as a time limit on when completed claims must be paid). This area falls within market conduct in both the present and proposed EISA structures. These standards would need to be developed, and again, education and training on these standards would be needed for market conduct examiners.

#### Consumer Education

While not strictly a regulatory function, it is common for insurance regulatory authorities to assist in the education of the consuming public on insurance issues. EISA presently produces some consumer pamphlets through its Public Relations office, and that function would continue there under both the present and proposed EISA structures. As the health insurance market grows, and more health insurance products reach the market, the consumer education component can be critical to help consumers understand the products and potentially cut down on consumer complaints. Education and training on basic health insurance concepts would be needed for staff members who write the consumer pamphlets.

#### Executive Regulations Under New Law

I have provided an attachment (Attachment Four) that sets forth the items that should be included in any Executive Regulations promulgated pursuant to the proposed prepaid health insurance law when it passes. The Chairman indicated he would find this helpful.

There are certain items that the present draft states must be addressed in regulations, such as more detail on reserve funds and investment guidelines. However, since the law is merely an enabling statute allowing HMO-type managed care organizations to form, there are certain consumer protection issues that should be set forth in the regulations to protect the policyholders. For example, if policyholders pay premiums faithfully, the policies should be guaranteed renewable so the insurer cannot terminate the policyholder after an illness. Because of the managed care nature of the organizations, standards ensuring fair treatment need to be detailed. I reviewed the list of issues for the regulations with the Chairman, and he understood that they were needed and asked for my help in drafting any regulations.

#### Miscellaneous Issues

One thing I have not discussed in the body of the report above is a Fraud Bureau. As the market grows, EISA needs to be vigilant about fraud perpetrated by consumers against insurers. The growth of the market could be seen as a source of securing monies through

fraudulent claims. One can hope this will not become an issue in Egypt, but EISA should be aware of the potential so it can deal with it if the problem arises.

Many governments have specific laws relating to private health information possessed by insurers, and limit its use without the consent of the policyholder. I have not addressed that issue here as I understand privacy concerns are dealt with elsewhere in Egyptian law.

With regard to existing health insurance products and the proposed law on prepaid health insurance, and their relationship to any new social health insurance program devised by the Egyptian government, if private health insurance is allowed to compete with the government package (e.g. substitution is allowed), EISA might want to consider requirements that would guard against adverse selection by the private market. This is too complicated an issue to be addressed here.

Last, with respect to existing health insurance products, my sense is that in some aspects they fall into a regulatory “black hole.” The financial aspects are reported by the companies presently as the health piece is part of a life contract (if the term is greater than one year) or a non-life product (if the term is one year or less). To my knowledge there are no standards at all for these coverages, nor is there review of the contract language. Several staff members said they thought this area of Egyptian law was inadequate. The proposed law is meant to address managed care only, so the existing coverages would not fall under it.

## **Conclusion**

Many of the foundational blocks are in place to build EISA’s health insurance supervision department in that functional similarity exists with respect to supervision of other insurance products. In beginning to build health insurance regulation capacity, my assessment is that two areas will require staff dedicated to specific functions: financial analysis and examination, and rate review (i.e. health insurance actuarial expertise). This is as opposed to cross-training existing personnel who will perform multiple functions, such as review of both life and health forms, company licensing, etc.

In addition to the special attention paid to financial oversight, market conduct activities are an important tool in regulating any new market or products. Cross-training of existing personnel is critical. I encourage EISA to devote the resources necessary to develop appropriate market conduct manuals, processes, and checklists.

## **Tasks and Educational Needs**

Following is a list of tasks and educational needs with respect to establishing a health insurance regulatory structure within EISA: (Most are general but some relate specifically to the proposed law)

### **Training in health insurance concepts and terminology**

- Develop Glossary of Health Insurance Terms
- Develop basic Health Insurance 101 Educational program
- Develop advanced educational programs in specified areas (after consultation with EISA)

### **Company licensing**

- Review Egyptian (proposed) law and train staff who review applications
- Develop application form for preliminary company approval (Article 3 approval)
- Develop checklist to accompany Article 3 application form
- Develop internal protocols to review and act on Article 3 application
- Develop application form for company registration licensing (Article 4 license)
- Develop checklist to accompany Article 4 application form
- Develop internal protocols to review and act on Article 4 application
- Develop website capacity for enforcement action transparency (e.g. public posting of enforcement actions)

### **Forms Review**

- Identify necessary components of health insurance contract forms
- Develop checklist for review of contract forms
- Develop standard format for Evidence of Coverage

### **Rate Review**

- Develop rate review protocols and processes
- Develop training in health insurance actuarial issues and sound underwriting practices

### **Marketing Materials Review**

- Develop marketing material review protocols and processes
- Develop training in health insurance marketing materials review

### **Consumer Complaints**

- Develop training in investigation of consumer complaints
- Develop standard consumer complaint form
- Enhance website capacity for filing of consumer complaints

### **Market Conduct**

- Develop market conduct protocols, procedures and checklists for health insurers (adapt from Gail Burns work, IAIS, NAIC)

- Develop training in health company market conduct examinations
- Develop website capacity for market conduct report transparency

### **Financial Examination**

- Adapt existing financial examination protocols and procedures for health companies (can also adapt from IAIS or NAIC)
- Develop training in health company financial examinations

### **Financial Reporting**

- Develop standard annual report format (adapt from existing reports or from NAIC)

### **Licensing of Agents/Brokers**

- Develop test for authorization to sell health product
- Either develop continuing education courses, or encourage/require private market to do so
- Develop website capacity for enforcement action transparency (e.g. public posting of enforcement actions)

### **Consumer Education**

- Work with other appropriate ministries to develop national consumer awareness program
- Train brochure-writing staff on basic health insurance concepts and terminology
- Develop health insurance informational brochures
- Develop brochure on how to file an appeal of a denial with the insurance company
- Develop brochure on how to file a complaint with EISA (online as well as on paper)

### **Next Steps**

1. Review timeline for building EISA's health insurance supervision department with the Chairman (Attachment Three)
2. Identify EISA staff members who will be designated personnel for health actuarial and financial training
3. Identify tasks from above list that can be completed in first quarter 2007 (see timeline)
4. Identify trainers for subject matter areas
5. Develop training courses and materials