



TRIP REPORT NO. CAR/KAZ-9

INSURANCE AND HEALTH MANAGEMENT SEMINAR

February 1-28, Almaty, Kazakhstan

Prepared under Task Order 027 by:
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ABOUT THE AUTHOR

Leta Finch is the Director of the Vermont Insurance Institute (VII) at Champlain College where she oversees the development and planning of education programs to meet the needs of undergraduates and professionals in the insurance industry. Prior to joining VII, Ms Finch served eight years as Director of Risk Management at the University of Vermont. She is past President of the University Risk Management and Insurance Association and has served on the boards of directors of UC Mutual Insurance Company, United Educators Insurance Risk Retention Group, Inc., and Planned Parenthood of America's Policy Holders Council. Her previous insurance experience includes work with the Hartford Group in Washington, DC and Alexander & Alexander, Inc. in Philadelphia. She received her undergraduate degree from the University of Hawaii, and a Masters degree in Public Administration from the University of Vermont.

SUMMARY

In February 1995, four faculty from the Vermont Insurance Institute (VII) and a two-person team from Kemerovo, Russia, led a six-day seminar for members of Kazakhstan's Supreme Soviet (Parliament). Seminar discussion topics included health care legislation, regulation and compliance; determination of Mandatory Health Insurance (MHI) Fund benefits; and pricing methodologies. In addition to members of Parliament, representatives from various ministry offices also attended. All participants and observers (approximately 45) received bound course materials in Russian from VII, including a seminar schedule, topical outlines, special readings and faculty biographies. English and Russian copies of the text, titled "Medical Insurance Legislation, Regulation and Compliance and Medical Insurance Funding," were left at the Abt Associates *ZdravReform* offices in Washington and Almaty.

At the end of the week, participants were asked to evaluate the seminar in terms of presentation, subject knowledge, organization and session content. Of the 15 evaluation forms returned, all rated the program "good" or better. See Annex C for copies of the evaluation forms.

The VII faculty team successfully transferred the following knowledge to the seminar participants:

- A basic understanding of internationally used medical insurance terminology and insurance fundamentals.
- The realization that the MHI Fund, as it was described, is expensive and would perhaps be unaffordable if it were to provide all of the services defined by the participants.
- That options for health care financing exist and should be considered thoroughly before settling on any one approach.

Discussions made it clear that the Parliament and Ministry of Health representatives want to restore the "old" system that existed under communism; maintain universal access and coverage; and provide a comprehensive package of benefits. However, budgeting for health care is generally a low priority. Lack of reliable funds and insufficient health care resources pose immediate challenges for the government of Kazakhstan. Among the barriers to successful health care reform in Kazakhstan are: lack of enabling legislation and regulatory oversight; poor public health; extensive environmental degradation; lack of pharmaceuticals; lack of investment opportunities; and health care delivery that suffers from a myriad of problems.

ACTIVITIES

In February 1995, faculty from the Vermont Insurance Institute (VII) and a team from Kemerovo, Russia, led a six-day seminar for the Health Care Committee of Kazakhstan's Supreme Soviet (Parliament). The 35 participants included 20 Ministry of Health officials and 15 Parliamentary Deputies of the Health Care Committee. Among the 15 Parliamentary Deputies were a representative from the new Scientific Center for Economic Health Problems and three representatives from Kyrgyzstan. In addition, there were 8 to 10 observers, including the director of the Ministry of Finance Office of Insurance. See Annex A for a list of participants. The sessions were held at the Alatau Sanatorium in Almaty.

The four seminar leaders from the VII included Director Leta Finch; Shawn Bryan, deputy commissioner, Vermont Department of Banking, Insurance & Securities; Thomas Van Cooper, director of Insurance Regulation, Vermont Department of Banking, Insurance & Securities; and Kerry Reynolds, vice president, Sedgwick James of New England. The two-person team from Kemerovo included Roman Zelkovich, director of the Information and Data Processing Center for the Regional Administration Department of Health, and Ludmilla Isakova, head of the Department of Health Economics for the Ministry of Health Research Laboratory for Medical Cybernetics.

Everyone who attended received bound texts in Russian, prepared by VII, that included a course schedule, topical outlines, special readings and a faculty directory. Copies in both English and Russian were provided to the *ZdravReform* offices in Washington and Almaty.

Seminar Structure

Time was split equally between the Kemerovo and VII teams, with each having three to three-and-a-half hours per day for presentations. The general discussion topics covered by each team included health care legislation, regulation and compliance; determination of Mandatory Health Insurance (MHI) Fund minimum benefits and financing schemes; and use of actuary and underwriting for pricing. Every evening the teams met to discuss the outcomes of the day's discussions and plan for the next day, which helped the presentations to flow smoothly.

In leading discussions, the two teams differed. The VII team took a broader approach in presenting concepts and issues for consideration in establishing an MHI Fund, whereas the Kemerovo team gave extremely detailed presentations about their MHI Fund, what led to its creation and how pricing is based on medical economic standards. The Kemerovo experience was relevant, although there was a great deal of interest in the "American" perspective.

Seminar Topics

After opening formalities and introductions, Leta Finch began the seminar with an "Introduction to Insurance Fundamentals" that included:

- Basic characteristics of insurance
- Requirements of an insurable risk
- Principles of utmost good faith
- Principles of health care risk management
- The impact on expenses of quality assurance and wellness

At the conclusion of the first day, Tom Van Cooper presented a series of questions that would open the next day's discussion on health care legislation, including:

- What does it mean to be healthy in Kazakhstan?
- Does every individual have a right to health care?
- Does Kazakhstan have sufficient resources to offer the desired minimum level of health care to everyone?
- Does a medical infrastructure exist?
- Are there differing socioeconomic expectations among the population of Kazakhstan?

Additional topics presented by Tom Van Cooper and Shawn Bryan during the first three days included:

- To what extent will a legal private/voluntary insurance industry exist?
- Will a private/voluntary insurance industry compete with the services provided by the MHI Fund or will it be supplemental?
- Is the mandatory (public) system going to allow for competing providers and/or payers?
- Will the MHI Fund have any discretionary monies available to assist with supplemental care payments?
- Ways in which to assure competition among insurers.
- The role of underwriting and the impact of risk selection, risk pricing and pooling.
- Regulating the relationship between solvency, rates and quality of care.
- The regulator as a company rehabilitator and liquidator.
- The licensing of agents and brokers.
- The licensing of companies selling insurance.
- The contract form approval process.
- Market conduct examinations of providers and sellers.
- Financial examinations and surveillance of providers.
- Receipt and investigation of consumer complaints.

The second half of the week was devoted to actuary and underwriting. Kerry Reynolds led the discussion, and topics included:

- How to determine guaranteed services and care.

- Philosophy of deductibles and coinsurance and their impact on costing.
- Pricing in a fixed-reimbursement market.
- Reimbursement methods, i.e., capitation, DRG, per diem, fee for services and budget allocations.
- Observed health care cost statistics.
- Projected health care cost statistics.
- Pricing benefit changes and the addition of new benefits.
- Group rating methods.
- Underwriting methods, i.e., risk classifications versus risk selections.
- Rate setting in a hyperinflationary economy.

The Kemerovo team spent considerable time on details of the creation, funding and management of the Kemerovo MHI Fund. Specific topics included:

- Historical aspects of the Kemerovo MHI.
- Options for mandatory health insurance.
- The Russian model: pros and cons.
- The Russian model compared to the Kemerovo model.
- The relationship between voluntary health insurance and mandatory health insurance.
- The legal framework in Kemerovo.
- Private- versus patient-paid doctors.

See Annex B for copies of overhead transparencies used by the Kemerovo team.

Roman Zelkovich of the Kemerovo team is extremely knowledgeable about health care systems in Canada, Japan, Western Europe and the United States. He called the U.S. model the "most unusual and the least relevant," and said that "because a voluntary system only works in the United States and nowhere else in the world, it should not be seriously considered." He added that France and Canada want to adopt the Kemerovo model. He said the strength of the one-fund Kemerovo model is that it makes reallocating insurance premiums/taxes simple; its weakness is that because providers have no competition, they have little incentive to provide quality care.

The Kemerovo model is based on the Dutch model. According to Mr. Zelkovich, Kemerovo received extensive technical assistance from the Netherlands in structuring its MHI Fund and additional technical assistance from England in actuary training. The British Actuary Association provided a colleague of Mr. Zelkovich with a one-year actuary certification course taught in a series of two-week periods.

Ludmilla Isakova stressed the following requirements for establishing a state fund for health care expenditures:

- A fair system for allocating resources among oblasts.

- Regulations on where and for what services the MHI Fund can spend resources, how the fund balance will be invested and who can work with what providers.
- Security mechanisms to protect and control MHI resources.
- Regulations for competing insurance companies and funds.
- Regulations for quality assurance, management of insurance companies and providers.
- An affordable package of benefits.
- An effective and efficient MIS system and support staff.
- A commitment to scientific research.

Seminar Conclusion

At the end of the week, all participants were asked to evaluate the value of the seminar. All of the 15 evaluation forms returned rated the seminar as "good" or better. For a review of all comments and ratings, see Annex C.

At the request of the Abt Associates *ZdravReform* office in Almaty, Vermont Insurance Institute presented all participants with a Certificate of Completion for attending the seminar. See Annex D for a copy of the certificate.

Accomplishments

The faculty team successfully transferred the following knowledge to the seminar participants:

1. A basic understanding of internationally used medical insurance terminology and insurance fundamentals. Success was demonstrated by the types of questions asked during the seminar and by the Kemerovo team's inclusion of more commonly used terminology in its presentations.
2. The realization that the MHI Fund, as it was described, is expensive and would perhaps be unaffordable if it were to provide all of the services defined by the participants.
3. That options for health care financing exist and should be considered thoroughly before settling on any one approach. These options include:
 - a. Restoring and maintaining the "old" generous benefit package and system, which has some "out of pocket" payment requirements for certain services.
 - b. Reducing the MHI budget fund core benefits and either packaging the remaining benefits in a voluntary group plan with co-payments or having patients pay the total cost out of pocket.
 - c. Allowing competition among private companies for public funds, as in Canada. Discussion included the issue of whether to allow physicians to choose to be either public or private, or as in the United States, to disallow physicians to deny public funds.

- d. Although it is unlikely to happen because of high taxation and organized crime "protection" demands, letting the current private underground system safely and profitably emerge.
- e. Increasing revenues by lowering direct costs of providing care, limiting MHI benefits, rationing benefits, lowering demands for services through public health and wellness efforts and imposing coinsurance and co-pays to suppress utilization.

In discussing these options, one participant predicted that there will not be a private medical insurance industry in Kazakhstan for the next five to seven years because of low individual income and the fact that services are not currently in demand.

FINDINGS

Health Care Insurance Law in Kazakhstan

The "Law of Kazakh Republic on Medical Insurance of Citizens," as it was provided to the VII team in English, uses terminology that is unheard of or not used in other countries, such as "insurant." This may be the result of poor translation, but as it is presented, it violates the intent of Kazakhstan's law, "On Insurance in the Republic of Kazakhstan," that says insurance will be carried out in accordance with international practice. Further, the law does not enable, and by omission disallows, such things as basic insured rights and user fees. There is no mention of solvency protections, consumer protections, rate setting mechanisms or assurance of availability. Regulatory oversight appears to be limited to general budgeting, volume of usage and services rendered. Unlike in the United States, where what is not disallowed is allowed, in Kazakhstan, what is not allowed by law is disallowed. See Annex E for a copy of the law as provided to the VII team.

Government Priorities, Challenges, Controversies and Non-Issues

Priorities

From the discussions, it was clear that the priorities of Parliament and Ministry of Health representatives are to:

- Restore the "old" system that existed under communism.
- Maintain universal access and coverage.
- Provide a comprehensive package of benefits including primary care, catastrophic sickness care, specialist care, hospital and nursing homes, home care, public health services, disability care and pharmaceuticals.

In general, health care is a low budgeting priority. Historically, the GNP devoted to health has been too low to provide quality care. In 1990, it declined from 6 percent to 3.3 percent. In 1992, it was 1.6 percent, and reportedly rose to 2.8 percent in 1994.

Challenges

The immediate challenges for the Kazakhstan government are:

- To assure the reliability of funds when taxes are variable based on the economy.
- Insufficient resources to provide the desired level of services.
- Effective distribution of available health care.

- Available funds, once used to provide salaries and supplies, are now being spent on new, unplanned expenses such as heat and utilities at hospitals. Because heat is centrally distributed, there is no way for hospitals to limit usage to control costs.

Controversies

Political controversies include:

- *Accountability of fund collection and redistribution.* There is a demand to assure full redistribution of extracted taxes back to the oblasts from which they were collected.
- *Concern that the new employer's tax to fund the MHI is on top of the "budget" tax already in existence, which will convert to pay for health care for the "non-employed."* Those that have the greatest objections to the new tax are those enterprises that own and operate their own hospitals, such as the phosphorous plants.

Non-issues

Non- issues voiced by many Kazakhstanis include quality of care, efficiencies, user fees, provider choice and second opinions.

The term "user fees" is disallowed in discussions on legitimate ways to share costs. When translated, it refers to the black market system of having to pay a doctor extra money "under the table" for care not otherwise provided by the state. The terms "co-pay" and "coinsurance" are acceptable (and more universally accepted by the insurance industry).

Minimum Benefits Package

The only services the participants were willing to eliminate from the comprehensive benefit package are the following:

- cosmetic surgery
- transsexual surgery
- routine circumcision
- voluntary abortion
- reproductive sterilizations
- acupuncture
- nontherapeutic massage
- adult orthodontics
- nonrecuperative sanatoria room/board and therapies
- private duty nursing
- adult vision care

- hospital inpatient upgrades
- outpatient prescription drugs
- routine physical exams
- birthing care

Barriers to Reform

Barriers to successful health care reform include:

- *No effective or enabling legislation or regulatory oversight.*
- *Poor public health, such as crude or insufficient water and sanitation facilities.*
- *Poor occupational health.* Worker safety is disregarded because of fears about the impact of safety measures on production.
- *Extensive environmental degradation.* For example, 10 out of 19 oblasts have been used for nuclear testing.
- *The lack of pharmaceuticals.* There are requests for unusual agents such as anti-cancer drugs.
- *Nonexistent investment opportunities to safeguard and earn income on insurance premiums, loss reserves and budgeted funds.*
- *Health care delivery that suffers from severe shortages of basic medical supplies, poor quality x-rays, limited availability of advanced diagnostic equipment, inadequate basic hygiene measures, common post-surgical infections such as fleas and lice, and patients with little or no rights and who lack the freedom to seek second opinions.*

RECOMMENDATIONS

1. Members of Parliament fear that with the passage of a new "add on" MHI tax, employers will strike or simply refuse to pay. This is particularly true in the case of some plants and factories that provide their own physicians and hospitals for workers, such as the phosphorous plants. One way to minimize the impact and give the employers a way to control their costs is to treat the tax as a type of pooled workers compensation plan, similar to state plans in the United States. A plant that has low demand because of good workplace safety would get a reduction in the following year's tax. Further, if a plant or factory is already providing full comprehensive care for its workers that is comparable or greater than that provided by the MHI Fund, it would be exempt from the tax.
2. Reduce the need for health care by improving hospital quality assurance to control infections; replacing outmoded and dangerous practices with modern medicine; improving public health and personal hygiene, thus reducing epidemics; and improving industrial and occupational safety.
3. Draft enabling legislation that also transfers authority to regulate compliance away from Parliament.

ANNEX A

List of Participants Seminar on Medical Insurance February 6–12, 1995

Anna A. Zaika	Deputy of Supreme Soviet of the Republic of Kazakhstan
Vera D. Climenko	Deputy of Supreme Soviet of the Republic of Kazakhstan
Bayan S. Iskakova	Deputy of Supreme Soviet of the Republic of Kazakhstan
Zmgali A. Kobenov	Deputy of Supreme Soviet of the Republic of Kazakhstan
Askar B. Baizhumanov	Deputy of Supreme Soviet of the Republic of Kazakhstan
Aitzhan A. Sadykov	Deputy of Supreme Soviet of the Republic of Kazakhstan
Assa I. Chizhyk	Deputy of Supreme Soviet of the Republic of Kazakhstan
Olga V. Banovska	Deputy of Supreme Soviet of the Republic of Kazakhstan
Alexander M. Kochkin	Deputy of Supreme Soviet of the Republic of Kazakhstan
Alevtina S. Kuryazina	Deputy of Supreme Soviet of the Republic of Kazakhstan
Stella G. Vasilyeva	Deputy of Supreme Soviet of the Republic of Kazakhstan
Boris M. Marinushkin	Deputy of Supreme Soviet of the Republic of Kazakhstan
Kalima D. Davletyarova	Deputy of Supreme Soviet of the Republic of Kazakhstan
Sergei S. Gavrilov	Head Expert of Committee of Supreme Soviet of the Republic of Kazakhstan
Kadyrbek N. Bolatbeyeu	Deputy Chief of Oblast Health Department of North Kazakhstan
Valentina N. Pavlushina	Main pediatrician of North Kazakhstan oblast
Saule R. Abseitova	Deputy Chief of Health Care Department of South Kazakhstan oblast
Altyn Sh. Suleimenova	Chief of Medical Health Care department in Akmola
Bolabiy Aiguzhin	Head physician of the oblast hospital, Akmola
Sergei M. Dyemochkin	Head physician of the multiprofited children's hospital in Akmola
Maksut K. Kulzhanov	Deputy Minister of MOH of the Republic of Kazakhstan
Ormanbek T. Zhuszhanov	Director of Scientific Center of Medical and Economic Problems on Health Care of MOH of the Republic of Kazakhstan
Nikolai E. Molchanov	Head physician of oblast hospital in Pavlodar
Roman D. Golubchik	Head physician of Municipal Sanitarium Epidemiological Station
Sarbi N. Arystanova	Chief of Economy Management Department of MOH of the Republic of Kazakhstan
Vladimir A. Yaksin	Chief of medical point department of "Karbid" Karaganda production association in Temirtau
Tilek Meimanaliyev	Office Manager of the "Manas" Health Care Reform, MOH of the Republic of Kyrgyzstan
Telebay Rahipbekov	Zhezkazgan Oblast Administration, Health Care Management Department

Vladimir Konyuhov	Chief of Laboratory on Economic Policy in Research Center
Alexander N. Chen	Chief of Scientific Department in Research Center
Mukashev	Chief of Insurance Department of Ministry of Finance of the Republic of Kazakhstan
Nurzhan A. Mukhambetov	Assistant to Deputy of Supreme Soviet of Republic of Kazakhstan
Naila Almagambetova	Medical Specialist of <i>ZdravReform</i> Project
Rashid T. Ibrayev	Deputy of Supreme Soviet of the Republic of Kazakhstan
Ainagul Shayahmetova	Chief of Medical Insurance Department of MOH of the Republic of Kyrgyzstan
Symbat Rysalieva	Chief of Medical Insurance Department of Ministry of Finance of the Republic of Kyrgyzstan

FACULTY BIOGRAPHIES

Leta C. Finch, Director, Vermont Insurance Institute at Champlain College, Vermont
M.A. Public Administration, University of Vermont
B.A. Sociology, University of Hawaii

As director of the Vermont Insurance Institute at Champlain College, Ms. Finch oversees its development and plans programs to meet the professional and educational needs of Vermont's insurance industry, including captive insurance companies. The Institute provides continuing education courses and undergraduate courses in the College's Business Management degree program and serves as the host site for seminars, professional meetings and national exams for professional designations. In addition, the Institute provides programs on a national and international basis upon request. Ms. Finch is an adjunct faculty member in the College's Business Administration Division.

Kerry G. Reynolds, Senior Underwriting Analyst, Sedgwick James of New England
M.S.Ed. Mathematics, University of Southern Maine
B.A. Physics, Bowdoin College

Mr. Reynolds is responsible for client services for large groups, particularly in the public sector, and for the completion of special projects of an analytical risk management, financial and underwriting nature. He has extensive and detailed knowledge of medical and dental plan pricing and underwriting concepts and methods, including rating, financing contracts, premium components, reserving, competitive bidding, pricing plan changes, flexible benefits, plan management and plan solvency. Mr. Reynolds is a former instructor for pricing and underwriting health benefits for Blue Cross/Blue Shield of America and former chair of the Blue Cross/Blue Shield New England Actuarial and Underwriting Committee. He taught high school and college mathematics for 10 years. Mr. Reynolds has lectured to the Vermont Insurance Institute's Russian delegations studying medical insurance.

Shawn W. Bryan, Deputy Commissioner of Insurance, Vermont Department of Banking, Insurance, & Securities
B.A. Norwich University
Stanford University, Financial Management Program

As senior management official and regulator for insurance for the state of Vermont, Mr. Bryan is responsible for the day-to-day management of regulatory activities and personnel management, regulatory management and complaint administration. He is also responsible for the captive insurance division, which is charged with regulating the third largest captive domicile in the world. Responsibilities include oversight of health, life, property, casualty, auto, credit and other insurance and the regulation of health maintenance organizations.

Thomas R. Van Cooper, Director of Insurance Regulation, Vermont Department of Banking,
Insurance, & Securities
J.D. Vermont Law School
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Mr. Van Cooper develops health policy, laws and regulations concerning health insurance in Vermont. He is responsible for review and approval of health insurance rates and forms and serves as legislative liaison for the commissioner on insurance matters. He has testified extensively on all health care proposals before the Vermont legislature, as well as before the U.S. Congress. He serves as a technical expert to Governor Howard Dean's office on health care matters. He is the department liaison to all health insurance companies in Vermont. He has developed and promulgated health care plans for small group markets and common claim forms.

Mr. Van Cooper supervises market conduct programs including examinations in all lines of insurance and all license categories and serves as the enforcement attorney for the insurance division.