

At issue: **Social insecurity: The financialisation of healthcare and pensions in developing countries**

Private financial institutions significantly influence healthcare and pensions in developing countries. 'Financialisation' - the expanding systemic power and scope of finance and financial markets and actors - has persisted, even through the financial crisis, without adequate debate or scrutiny. The extensive scope of private finance and its impact on social outcomes highlights the need for development practitioners, policy makers and activists to better understand the financial system.

With global health spending at \$5.3 trillion and global pensions assets at \$29.5 trillion, national health and pension funds represent significant opportunities for financial corporations.

This is a summary of a paper which examines the structural shortcomings of the privatisation reforms that have been proposed by multilateral actors, including the World Bank, in meeting the developmental needs of southern countries. It considers the various drivers of the reforms, including multilateral agencies, national elites and corporate and financial interests, and outlines the role of private pension funds and health insurance companies in financial markets, and their strategies in developing countries.

Privatising pensions and health

Privatisation reforms have failed to adequately address the social risks of old age, poverty and poor health. The World Bank has been one of the key proponents of pension reform. In its 1994 paper *Averting the old age crisis*, the World Bank condemned the existing pay-as-you-go systems on both efficiency and distributional grounds, claiming that they "too often produced costly labour and capital market distortions." The Bank recommended a three-tiered approach to pension reform. The first tier meant reducing the tax-financed public pension from the main element of pension provision to a substantially reduced safety net. The second involved moving occupational pension schemes from 'defined benefit' to 'defined contribution', to be managed by the financial services industry. This in effect transferred risk from the employer to the employee. Finally the Bank recommended making mandatory personal savings by individuals the main element, with contributions channeled to and managed by commercial suppliers.

Far from increasing efficiency, the reforms have proved costly and have drained public resources through lavish tax incentives and significant administrative and regulatory expenses. In Chile, the private pensions system absorbs around a third of the overall government budget and 42 per cent of public social expenditure. There has been a failure to increase coverage, as only those who can afford to pay premiums can benefit from private schemes. Women, who make up a large proportion of informal workers and the poor, often receive significantly lower benefits and are doubly hit, in the face of declining public expenditure on social security.

Additionally, private pension schemes would only benefit those who are able to pay, while declining state social security excludes many in informal work. Highly deregulated, flexible and informal labour markets in developing countries mean that most workers do not have stable

employment or adequate wages. Contrary to the World Bank's claim that private pension systems would provide stronger incentives for membership than the public system, a recent study of social policy in Latin America showed coverage declined after private pension reform in all 10 countries studied.

By focusing on dismantling the public provision of pensions in developing countries, the Bank's proposed reforms do not seem to offer a solution for the majority of the world's pension-less poor. It is also telling that the examples used by the World Bank to support its arguments on the failure of publicly funded social security systems dwelt on the failures of Latin America and Africa, avoiding not only the history of the industrialised countries themselves, but also ignoring the models of East Asia. The provident funds of Singapore and Malaysia, social security savings schemes administered by the public sector, have fared far better than the Chilean pension fund administration system with far higher coverage rates and significantly lower administrative costs. Additionally, Japan's strong post-war growth had been facilitated by public retirement funds which had invested in roads, harbours, railways and airports.

Multilateral institutions such as the Bank have also advocated for policies that encourage private health insurance, as well as the general

In 1981, Chile was the first country to push through private pension reform, serving as a model for other developing countries. However, many private pension fund management companies are in the hands of foreign financial conglomerates. Chile's largest private pension manager, Provida, with \$36.1 billion under management, is owned by Spain's largest financial institution, BBVA. Between 1981 and 2006, Chilean workers contributed approximately \$50 billion from their salaries towards the private pension schemes, of which private pension managers and related insurance companies kept one third as commissions and profit.

privatisation of healthcare and public health services that were previously provided by the public sector.

Private health insurance (PHI) accounts for a larger share of health spending in developing countries than is commonly acknowledged. According to the World Health Organisation, PHI made up 18 per cent of the \$5.3 trillion total world

health expenditure in 2007. 14 Developing countries represent over half of the countries with private health insurance markets. In Brazil, Chile, Namibia, South Africa and Zimbabwe, PHI contributes more than 20 per cent of total health spending. The World Bank has been promoting PHI on the grounds of equity and efficiency. It argues that liberalisation of health provision frees public sector resources for the poor by allowing the better off to choose the private sector. Additionally, charging fees for healthcare would encourage the poor to make the most of the services.

However, there are several well acknowledged reasons why PHI has failed to deliver efficient and equitable healthcare in developing countries. It has proved a drain on public sector resources. Far from saving on government resources, there are administrative costs associated with PHI, which have been estimated to be up to ten times higher than the administration costs of social insurance. Private insurance companies seek to maximise profit, they attract people with lower health risk and exclude higher risk people, including women, the elderly and people living with HIV. This is done through screening, waiting periods and co-payments.

As in the case of private pensions, a significant percentage of the population who are in informal work or are too poor to afford premiums miss out. Doubly excluded are informal workers who are also not covered by social insurance schemes, which usually only provide cover to those in formal employment.

Who is in the driving seat?

The reforms, though supported by national governments, have been pushed by local elites, multilateral agencies and global corporate and financial interests. Even though the privatisation reforms are failing to benefit the majority, national governments - pressed by those local elites, multilateral agencies and global corporate and financial interests - have contributed significant public resources towards enacting the reforms. This suggests that social security privatisation is not necessarily about the retreat of the state from social protection, but about the state's transformation. It is also acknowledges that the liberalisation of trade and the relocation of multinational health corporations to developing country markets have contributed to the privatisation of health. Several US-based managed-care organisations have entered Latin America and Asia, seeking access to public social security funds.

Professor Mitchell Orenstein of John Hopkins University argues that the turning point for the transnational campaign for pensions privatisation came after the World Bank's publication of *Averting the old age crisis*. Adding new intellectual weight for pension privatisation and representing a shift in the Bank's pension policy, it also presented a more palatable set of options than those of the Chilean model. It allowed for a continuation of the state social security system, albeit watered down, through its 'multi-pillar' approach, making it more appealing for a broader range of countries.

Transnational actors such as the Bank and other multilateral agencies, have used a range of tools to encourage social security privatisation, often putting forward policy ideas in domestic political arenas. While they lack the rights to vote on or block policy proposals, they have used strategies to encourage domestic players to adopt their suggestions. These strategies include putting conditions on loans, organising workshops and conferences to deploy expertise, writing publications, and providing technical assistance in reform implementation. To encourage Mexico's private health reforms, the Bank supported them with loans of over \$700 million, with the attached conditionality that some managed-care organisations would be operating by the year 2000.

For private pension reform, the World Bank Institute has run numerous seminars, training large numbers of officials. It has also developed publication series, including a 'pension reform primer', which aims to train country officials in the workings of private pension ideas. These can be seen as part of a strategy to recruit new partners in national government and shape their policy preferences.

The Bank also provides sophisticated modelling software, customised for each country, enabling officials to enter parameters to make projections about the future of a country's pension systems. According to Orenstein, this provides a unique power resource by providing a distinct advantage to reformers, who can display better technical expertise and are better able to expound the benefits of their own ideas, undercutting the proposals of their opponents.

Other resources provided by transnational actors to boost the political

power of reformers are access to high-powered legal experts and consultants, who can help domestic reformers beat their opponents in public debates. The Bank has also seconded its own employees to participate in reform teams, opening a revolving door between leading international actors and national governments.

There are also clear links between social security reform and financialisation. Over the last three decades, finance has grown rapidly in terms of activities, markets, institutions and profits. By the end of 2008, the global insurance industry held \$18.7 trillion of funds under management, with global insurance premiums at \$4.3 trillion. Banks and insurance companies earn interest spreads, fees and commissions directly off workers' health insurance and pensions contributions, including from the poorest layers of society.

Another channel through which financialisation has impacted social security policy in developing countries is indirectly, through altering the role of multilateral agencies, such as the IMF and the Bank, and encouraging finance-friendly macroeconomic policies. According to London School of Economics professor Robert Wade, "under the banner of 'capital market development' the World Bank and the US Agency for International Development are promoting mandatory public or private pension funds even in countries, like Kazakhstan, that lack accountants and adequate record keeping, let alone a stock market."

It is clear that private and poorly regulated financial institutions have played a central role in the failures of the social security reforms to overcome the challenges of healthcare access and old age poverty in many developing countries. The global financial crisis further served to expose the fragility of the financial system, with many pension funds and insurance companies collapsing. At the same time, the resulting rise in unemployment and poverty following the financial crisis in developing countries makes the issue of social security even more vital. There is an

urgent need for more research to be done on the role and impact of private financial institutions in the pensions and health insurance sectors in developing countries and on the role international financial institutions are playing in driving this forward.

In Argentina, the healthcare reforms enacted in the 1990s have also benefited financial corporations, which have extracted large profits and moved capital outside the health system and the country. According to professor Celia Iriart from the University of New Mexico, US-owned private health insurer Exxel Group used high levels of debt to evade tax, transferred capital from Argentina to foreign private accounts, and drained government resources by keeping part of the revenue of public hospitals it was managing.

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