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The financialization of healthcare and pensions in developing countries

Private financial institutions significantly influence healthcare and pensions in developing countries. 'Financialization' - 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. 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.

Privatizing pensions

Privatization reforms have failed to adequately address the social risks of old age, poverty and poor health. The World Bank has been a key proponent of pension reform. Its 1994 book *Averting the old age crisis* condemned existing pay-as-you-go systems on both efficiency and distributional grounds, claiming they "too often produced costly labor and capital market distortions."

The Bank recommended a three-pronged approach to pension reform. The first involved reducing tax-financed public pensions from the main element of pension provision to a substantially reduced social safety net. The second involved moving occupational pension schemes from 'defined benefits' to 'defined contributions', to be managed by private financial services. 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% 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 by declining public expenditure on social security.

Additionally, private pension schemes only benefit those able to pay, while declining state social security excludes many in informal work. Highly deregulated, flexible and informal labor 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, coverage declined after private pension reform.

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

Privatizing health

Financial institutions have also advocated policies that encourage private health insurance, as well as the general privatization of healthcare and public health services previously provided by the public sector. Private health insurance (PHI) accounts for a larger share of health spending in developing countries than commonly acknowledged. According to the World Health Organization, PHI made up 18% of the $5.3 trillion total world health expenditure in 2007. Developing countries represent over half the countries with private health insurance markets. In Brazil, Chile, Namibia, South Africa and Zimbabwe, PHI contributes more than 20% of total health spending.

The World Bank has been promoting PHI on the grounds of equity and efficiency, arguing that privatization of health provision frees public sector resources for the poor by allowing the better off to use the private sector. Charging fees for healthcare would also encourage the poor to better use public 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, the administrative costs associated with PHI are up to ten times higher than those of social insurance. Private insurance companies seek to maximize profit, 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 in informal work or too poor to afford premiums miss out. Doubly excluded are informal workers not covered by social insurance schemes, which only cover those in formal employment.

Case studies

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.

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 Celia Iriart, 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.

Who is driving?

Even though the privatization 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 to enact the reforms. Social security privatization is not just about the retreat of the state from social protection, but also about the state's transformation. Transnational health corporations have contributed to the privatization of health in developing countries. Several US-based managed healthcare corporations have entered Latin America and Asia, seeking access to public social security funds.

The turning point for the transnational campaign for pensions privatization came after the World Bank's publication of *Averting the old age crisis*. Ostensibly adding analytical weight for pensions privatization, the Bank's new pensions policy was also more palatable than the Chilean model. Its 'multi-pillar' approach allows for continuation, albeit watered down, of state social security systems - appealing to a broader range of countries.

A range of tools have been used to encourage social security privatization, with new policy options often put forward in domestic policy forums. While they lack the right to vote on or block policy proposals, they have used various strategies to encourage adoption of their suggestions. These strategies include putting conditions on loans, organizing workshops and conferences to deploy expertise, sponsoring influential publications, and providing technical assistance for implementing reform. To encourage them, the Bank supported Mexico's private health reforms with loans of over $700 million, with the condition that some managed-care organizations would be operating by the year 2000.

For private pension reform, the World Bank Institute has run numerous seminars, and developed publication series, including a 'pension reform primer', to train officials and shape their policy preferences. The Bank also provides sophisticated modeling software, customized for each country, enabling officials to enter parameters to make projections about the future of a country's pension systems. This provides a unique resource by providing a distinct advantage to reformers, who can display better technical expertise, better expound their proposals, and undercut their opponents.

Other resources provided to boost reformers include high-flying and high-powered foreign experts and consultants to help domestic reformers in public debates. The Bank has also seconded its own employees to support reform teams in national governments.

There are clear links between social security reform and financialization. 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 pension contributions.

Financialization has indirectly impacted social security policy in developing countries, as multilateral agencies encouraged finance-friendly macroeconomic policies. LSE professor Robert Wade wrote, "under the banner of 'capital market development' the World Bank and the US Agency for International Development are promoting … private pension funds even in countries, like Kazakhstan, that lack accountants and adequate record keeping, let alone a stock market."

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 exposed 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.

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[1] Adapted and condensed from: *Social insecurity: The financialisation of healthcare and pension in developing countries*, July 2010, Bretton Woods Project, London. http://brettonwoodsproject.org/socialinsecurity