

Cofece-042-2022

Competition problems in insurance of medical expenses affect consumers: Cofece

- *The Study identified problems that reduce the intensity of competition, such as high costs for switching insurers, the way insurance agents are remunerated, opacity in hospital services, legal uncertainty for the entry of insurtech companies, as well as high concentration in the insurance of medical expenses market.*
- *Cofece recommends to authorities and regulators various actions to improve the transparency, operation and costs of the market for the benefit of a greater number of users.*

Mexico City, December 6, 2022.- The Federal Economic Competition Commission (Cofece or Commission) presented today its *Estudio de competencia y libre concurrencia en seguros de gastos médicos [Study of competition and free market access in insurance of medical expenses]* (Study), in which it identified problems that reduce the competitive pressure to the detriment of consumers, such as: high costs for switching insurers; lack of information on the characteristics of the contracted services; the way insurance agents are remunerated and opacity in the quality of hospital services, among others. The aforementioned generates increases in the prices of insurance premiums.

Insurance of medical expenses (SGM, per its initials in Spanish) are financial instruments that allow to face expenses caused by damages or health risks, in a shared way with a group of people who contract these services. In Mexico, the market of SGMs is worth 92 billion Mexican pesos per year and 13 million people are covered by them, in addition to the aging of the population implies that the demand for health services will increase in the coming years, therefore it is necessary to promote greater competition to reduce the price of premiums and, hence, out-of-pocket spending on health.¹

The Study indicates, among other competition and free market access problems, that the related market for hospital services is not very transparent, consumers face high costs for

¹ Payments assumed by patients when insurance —either public or private— does not fully cover health care costs; includes co-insurance, self-medication and other expenses paid directly by households.



switching insurers, the way insurance agents are remunerated hinders the entry of new companies, and there is legal uncertainty that could be hindering the entry of *insurtech* companies.² In addition, the SGM market is highly concentrated, as the four insurers with the largest share issue 75% of the premiums, and the prices of premiums for these services show an upward trend.

The Study shows indications that insurers may have little bargaining power *vis-à-vis* larger hospitals. Seventy percent of insurance payments are registered in Mexico City, Jalisco, Nuevo León and the State of Mexico, where 79% of hospitals with more than 100 beds are concentrated. The prices of hospital services are significantly higher in these entities, even for common conditions whose care should be standard.

It is also noted that insurers are not obliged to recognize the seniority of clients coming from other insurers and to cover pre-existing conditions; in addition, waiting periods for the care of certain conditions are back to square one, which causes many users to remain tied to their first choice of insurer, regardless of the increase in the price of their policies with the annual renewal.

Additionally, the regulation for the interconnection and sharing of insurers' data through Application Programming Interface (API) (open finance) has not been issued, which hinders the entry of new providers.

Thus, with the objective of promoting competition and free market access, Cofece proposed diverse recommendations grouped under four areas:

1. Promotion of transparency in the related market of hospital services, for which it recommends that the Office of the Federal Prosecutor for the Consumer develops and publishes indicators that measure the price-quality ratio of private hospital services.
2. Promote consumer mobility by establishing mandatory portability of seniority. To this end, the Commission recommends establishing a risk bureau with rules that

² New technologies with the potential to bring innovation to the insurance sector and impact regulatory practices in insurance markets.

guarantee its independent operation from the insurers, so that they know the claims history of potential policyholders.

3. Decrease of search costs for consumers, therefore Cofece proposes that the regulatory authorities promote the establishment of minimum standards for the websites of insurers and comparators; as well as the establishment of rules to be followed by comparators and other intermediaries that commercialize through digital channels to promote or provide insurance intermediation services.
4. Reduction of barriers to entry for new competitors by making it mandatory for insurance agents to show consumers information on the commissions and bonuses they receive from insurers and prohibit prizes, bonuses or contingent commissions, reducing the conflict of interest arising from the incentive of sales agents to place products from a single insurer. In addition, Cofece recommends that the regulatory authority issue the general provisions referred to in Article 76 of the Law to Regulate Financial Technology Institutions (*Fintech Law*) on the exchange of data and transactional information, which will facilitate the entry into the market of data intermediaries and *insurtech* companies.

With this Study, Cofece reaffirms its commitment to remain vigilant against public or private acts that may affect the competition conditions to the harm of the efficient functioning of markets and to the detriment of consumer welfare.

[Read the full Study](#) (in Spanish)

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MORE COMPETITION FOR A STRONGER MEXICO

The Federal Economic Competition Commission safeguards competition and free market access.

Through its work, it seeks better conditions for consumers, that more services are supplied with higher quality and that there is a “level-playing-field” for companies

