



## An Assessment of the Economic and Financial Situation of the Supplementary Health Sector

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### **Summary**

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Concerns about the increase in costs of healthcare and the intensification of the forces that push that rise in the short, medium and long terms suggest the need to evaluate the economic and financial situation of health plans carriers. The sustainability of the sector depends on addressing relevant regulatory aspects so that it can be ready and economically stable to face major challenges resulting from the increase in longevity of the population, and greater demand for healthcare. Due to a number of factors, costs in the supplementary healthcare sector have been increasing faster than the growth in people's incomes, and the rate of inflation. Also, the need by carriers to re-adjust the variation of costs is an important task if the balance of contracts and the survival of the industry are to be maintained. Is the financial condition of health carriers good enough to face all these challenges? This essay sheds light on the present scenario for carriers operating in the sector with regards to their financial condition and solvency situation. Some regulatory measures can contribute to a better adjustment between healthcare income and expenses, such as the evaluation of technological developments based on cost-effectiveness criteria and classification according to the usage guidelines of best medical practices. In the conclusion of the text, some actions are suggested to help achieve that goal.

### **Key Words**

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Health plans, longevity, sustainability, regulatory measures.

### **Contents**

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1. Objective. 2. Structure of the Study. 3. Outcomes. 4. Conclusions.



## **Sinopse**

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### **Uma Avaliação da Situação Econômico-financeira do Setor de Saúde Suplementar**

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## **Resumo**

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A preocupação com o crescimento dos custos na assistência à saúde e a intensificação dos fatores que os impulsionam, no curto, médio e longo prazos, sugerem que se avalie a situação econômico-financeira das operadoras de planos de saúde. A sustentabilidade do setor depende do equacionamento de pontos da regulamentação para que o setor esteja apto e saudável para enfrentar grandes desafios com a maior longevidade da população e, conseqüentemente, com a maior demanda por assistência à saúde. Por diversos fatores, os custos setoriais com assistência à saúde suplementar crescem a um ritmo superior ao crescimento das rendas das pessoas e da própria taxa de inflação. E a necessidade de reposição da variação dos custos pelas operadoras é tarefa importante para a manutenção do equilíbrio dos contratos e sobrevivência do setor. Será que as operadoras estão em condições financeiras favoráveis para enfrentar todos esses desafios? O presente estudo apresenta um retrato da condição financeira e da solvência das operadoras que atuam no setor. Algumas medidas regulatórias podem contribuir para um melhor ajustamento entre receitas e despesas assistenciais como a avaliação das incorporações tecnológicas baseadas em critérios de custo-efetividade e a indicação segundo diretrizes de utilização baseadas nas melhores práticas médicas. Ao final do texto, algumas ações são sugeridas nesta direção.

## **Palavras-Chave**

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Plano de saúde, longevidade, sustentabilidade, medidas regulatórias.

## **Sumário**

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1. Objetivo. 2. Desenho do Estudo. 3. Resultados. 4. Conclusão.



## **Sinopsis**

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### **Una Evaluación de la Situación Económica y Financiera del Sector de Salud Suplementaria**

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## **Resumen**

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La preocupación con el incremento de los costos de la atención a la salud y la intensificación de los factores que los impulsan a corto, mediano y largo plazos, sugiere una evaluación de la situación económica y financiera de los proveedores de planes de salud. La sostenibilidad del sector depende del tratamiento adecuado de algunos aspectos de la regulación a fin de que el sector esté apto y sano para hacer frente a los grandes retos derivados de la mayor longevidad de la población y, en consecuencia, de la mayor demanda por los servicios de salud. Por varios factores, los costos sectoriales de la atención a la salud crecen a un ritmo más rápido que el crecimiento de los ingresos de las personas y de la propia tasa de inflación. Y la necesidad de reponer la variación de los costos por parte de los proveedores es una importante tarea para mantener el equilibrio de los contratos y la supervivencia de la industria. ¿Estarán los proveedores en buenas condiciones financieras para afrontar todos estos desafíos? Este estudio presenta un panorama de la situación financiera y de la solvencia de los proveedores que actúan en el sector. Algunas medidas regulatorias pueden contribuir a un mejor ajuste entre los ingresos y los gastos de la atención a la salud, como la evaluación de las incorporaciones tecnológicas basadas en criterios de costo-efectividad y la indicación según las directrices de uso basadas en las mejores prácticas médicas. Al final del texto, se sugieren algunas acciones en esta dirección.

## **Palabras-Clave**

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Plan de salud, longevidad, sostenibilidad, medidas regulatorias.

## **Sumario**

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1. Objetivo. 2. Diseño del estudio. 3. Resultados. 4. Conclusión.



## Executive Summary

In order to map the financial situation of the companies in a larger scale, two independent, albeit complementary, studies were produced. The first study evaluates the economic and financial situation of the carriers, according to type and size. The purpose of the second study is to analyse the carriers that had negative equity, and also classifying them according to type and size. In the first study, 579 carriers that published their healthcare income and expenses data for 2013 in the modalities of Medical Group, Medical Cooperative and Insurance Company Specialised in Health were selected. In the second study, the criterion of selection was based on carriers that showed negative equity as a measure of insolvency<sup>1</sup>.

The study shows that the loss ratio is high (above 81% for most companies), regardless of the group under analysis. The extension of mandatory covers, technologies that were not evaluated from the perspective of cost effectiveness, inadequate information, among other factors, can exacerbate this indicator, as well as the limits of economic capacity of society (individuals and companies) to support the price increases (adjustments) required to maintain the actuarial balance of the contracts.

The combined and wide combined ratios (96% and 95% for the total market) denote high total expenses compared to revenues. With regards to small carriers, healthcare, commercialisation and administration costs may exceed revenues.

The indicators on the return of investment and profitability were low. In Medicine Group carriers, in particular, they were found to be negative. The return on equity has been detaching itself from the capital opportunity cost over the last five years.

During the year, 92 out of the 1,143 carriers that made their balance sheets public showed negative equity to the amount of R\$ 473.4 million. These operators had 1.8 million beneficiaries in their portfolios.

The study shows relevant economic and financial weaknesses, which increases the challenge for sustainability in a sector where the factors that push the costs up tend to rise with increasing longevity of beneficiaries.

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<sup>1</sup> It should be noted, however, that other broader comprehensive definitions of insolvency may be used in subsequent studies.



## 1. Objective

The objective of this study is to evaluate the economic and financial situation of the supplementary healthcare market in 2013. The increase of costs in the sector, particularly those related to technological innovations, and Orthotics, Prosthetics, and Special Materials (OPME, in its acronym in Portuguese) is intensifying the trend of cost increase, as shown in several studies<sup>2</sup>. In Brazil, this scenario makes healthcare plans carriers very concerned since they lose some control over the choice of both therapeutic methods and materials used. Concerns about the correct use of medical and technological resources must be in the agenda for discussions. In the US, for example, estimates show that about 30% of the R\$ 2.6 trillion spent annually in the health system are wasted on unnecessary procedures as well as on inefficiencies of the system and fraud-related incidents<sup>3</sup>. In addition to the increase in content in the List of Procedures and Events in Health published by the National Regulatory Agency for Private Health Insurance and Plans (ANS), as well as other regulatory requirements, a growing economic weakness for a significant proportion of carriers has been observed. They may find it difficult to secure their economic feasibility in the market if regulatory, economic and demographic trends stay the same in the medium and long terms. This perception is corroborated in their financial statements and balance sheets according to the publicly available figures. The economic and financial indicators of carriers were calculated, confirming such concern and prompting the need for a closer look by government authorities. With the exception of return on equity indicators, temporal analysis and trends are not the subject of this study. The objective is to show the current economic and financial situation of the sector.

## 2. Structure of the Study

Two independent studies were undertaken, which are complementary between them. For the first study (Sector Diagnostics) 579 carriers that made their healthcare income and expenses data for 2013 public, in the modalities Medical Group, Medical Cooperative and Insurance Company Specialised in Health, were selected. In the second study, carriers that showed negative equity as a measure of insolvency<sup>4</sup> were selected. We split this set of types into two subsets of analysis: carriers which are affiliated to FenaSaúde and carriers which are not. In the Group of non-affiliated carriers, the indicators were further divided by size (small, medium and large)<sup>5</sup> and types. In addition, the sector insolvency map was analysed, using a basic accounting principle of negative equity to classify insolvent carriers<sup>6</sup>. Figure 1 summarises the structure of the study.

<sup>2</sup> In most countries. Source: Sorenson C, Drummond, M, Khan, B (2013). *“Technological Change as a Key Driver of Rising Health Expenditure: disentangling the relationship”*. Clinical Economics and Outcomes.

<sup>3</sup> Rosemary Gibson and Janardan Prasad Singh *“The Treatment Trap: How the Overuse of Medical Care is Wrecking Your Health and What You Can Do to Prevent It”* 2010.

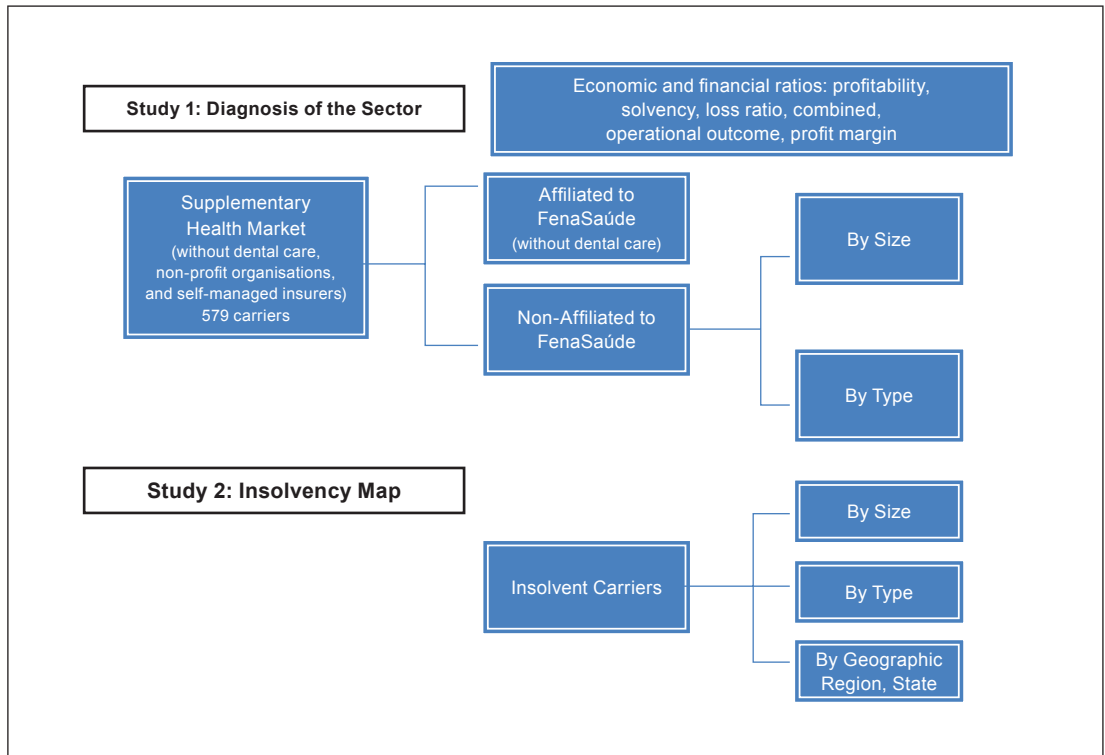
<sup>4</sup> We chose not to include Self-Health and Non-Profit Health carriers because they do not seek profit. Nor did we include the Dental Group and Dental Cooperative carriers since they do not commercialise medical plans.

<sup>5</sup> Small ones (up to 20 thousand beneficiaries), medium ones (from 20 to 100 thousand beneficiaries) and large ones (over 100 thousand beneficiaries). The classification was made by the ANS.

<sup>6</sup> Other definitions of insolvency are possible. Prediction studies of insolvency usually use legal and regulatory classifications for this classification. In the case of supplementary health, a possible definition is a health carrier under the special regime of extrajudicial liquidation. We opted for the simplification in terms of accountancy due to the greater availability of data, and because carriers under intervention often fail to regularly disclose their financial statements.



**Figure 1 – Structure of the Study**



Source: Elaborated by the authors



Table 1 summarises the key financial information for the study. It points to the negative margins observed in small carriers of the cooperative type, as well as small and medium sized carriers in the Medical Group type. The sample of 579 carriers analysed in the first study is classified as follows: 12 – Insurance companies specialised in health; 263 – medical group; 304 – medical cooperatives. These health carriers have 47.5 million of beneficiaries, revenues of R\$ 92.5 billion, healthcare expenses of R\$ 90.8 billion and an operational outcome of R\$ 1.7 billion. The operational outcome of this sample without the carriers affiliated to FenaSaúde<sup>7</sup> is substantially reduced to R\$ 0.2 billion.

**Table 1 – Description of the Sample by Carriers, Beneficiaries and Economic Data**

	Carriers	Beneficiaries	Revenue <sup>a</sup>	Total Expenses <sup>a</sup>	Operational Outcome <sup>a</sup>	Operational Margin (%)
Supplementary Health Market*	579	47,529	92.5	90.8	1.7	1.88
FenaSaúde	21	17,943	41.0	39.5	1.5	3.69
Market without FenaSaúde	558	29,586	51.5	51.3	0.2	0.44
Medical Cooperative	304	18,843	38.1	37.9	0.2	0.54
Large	36	11,780	25.1	24.8	0.2	0.93
Medium	130	5,754	10.4	10.4	0,0	0.45
Small	138	1,310	2,6	2.6	(0.1)	(2.92)
Medical Group	254	10,743	13,44	13.42	0.0	0,15
Large	17	5,726	6.36	6.24	0.1	1.91
Medium	78	3,818	5.34	5.35	(0.0)	(0.18)
Small	159	1,199	1.73	1.83	(0.1)	(5.29)
Supplementary Health Market**	672	47,922	92.5	90.9	1.6	1.76

Notes: \* Study sample (579 health carriers).

\*\* Total supplementary health market (672 operators), excluding those of the type self-managed, non-profit, benefit administrator, dental group, and dental cooperative carriers.

<sup>a</sup> Billion of R\$

Sources: Informational System of beneficiary – SIB / ANS / MS. Document with periodical information from healthcare plan carriers – DIOPS / ANS. ANS / TABNET – Accessed on 11/4/2014.

Elaborated by the authors.

<sup>7</sup> Amico Saúde Ltda – Amil Assistência Médica Internacional S.A. – Mediservice Administradora de Planos de Saúde S.A. – Intermédica Sistema de Saúde S.A. – Omint Serviços de Saúde Ltda. – Care Plus Medicina Assistencial Ltda. – Golden Cross Assistência Internacional de Saúde Ltda. – Gama Saúde Ltda. – Sul América Serviços de Saúde S.A. – Salutar Saúde Seguradora S.A. – Tempo Saúde Seguradora S.A. – Marítima Saúde Seguros S.A. – Allianz Saúde S.A. – Porto Seguro – Seguro Saúde S.A. – Unimed Seguros Saúde S.A. – Itauseg Saúde S.A. – Sul América Saúde Companhia de Seguros – Bradesco Saúde S.A. – Sulamérica Companhia de Seguro Saúde – Notre Dame Seguradora S.A. – Caixa Seguradora Especializada em Saúde S.A.



### 3. Outcomes

**Table 2 – Operational Ratios**

	LR	AER	ACR	COMB	WCOMB
Supplementary Health Market*	81.46	11.24	3.48	96.18	95.62
FenaSaúde	81.76	8.32	4.82	94.90	94.25
Market without FenaSaúde	81.38	14.70	1.03	97.11	96.71
Medical Cooperative	82.18	12.86	2.15	97.20	96.67
Large	82.94	11.26	2.76	96.95	96.40
Medium	81.38	14.70	1.03	97.11	96.71
Small	78.11	21.08	0.82	100.01	99.18
Medical Group	78.46	15.56	3.15	97.21	96.86
Large	76.95	14.24	3.84	95.04	94.66
Medium	80.58	14.86	2.73	98.16	97.74
Small	77.50	22.87	1.90	102.26	102.24

Notes: \* Study sample (579 health carriers).

LR – Loss Ratio (%)<sup>8</sup>

AER – Administrative Expenses Ratio (%)<sup>9</sup>

ACR – Acquisition Costs Ratio (%)<sup>10</sup>

COMB – Combined Ratio (%)<sup>11</sup>

WCOMB – Wide Combined Ratio – Combined Ratio Considering Financial Results (%)<sup>12</sup>

Sources: Document with periodical information from healthcare plans carriers – DIOPS / ANS.

ANS / TABNET – Accessed on 11/Apr/2014. Elaborated by the authors

Table 2 shows a set of economic and financial ratios for the group of carriers in the sample (579). Loss ratios show little variation within groups. That said, they are very high, which is a concern, regardless of the group size under analysis. The increase in mandatory covers, of technologies that were not evaluated from the perspective of cost effectiveness, higher profitability in the activities performed by medical providers and inappropriate referrals, among other factors, aggravate this ratio. Increases in costs, and prices (readjustments) must comply with the commitment to maintain the actuarial balance of the contracts, and with the economic capacity of society (individuals and companies) to finance the sector.

<sup>8</sup> Percentage of revenue for the payment of healthcare events.

<sup>9</sup> Percentage of revenue for the payment of administrative expenditures.

<sup>10</sup> Percentage of revenue for the payment of commercialisation costs.

<sup>11</sup> Percentage of revenue for the payment of healthcare events + administrative expenditures + commercialisation costs.

<sup>12</sup> Percentage of revenue added to financial profitability, which is for the payment of healthcare events + administrative expenditures + commercialisation costs.





In order to exercise their economic activity and basic social protection, as well as to provide access to covered health services, carriers must organise contracts, hire qualified personnel, implement and maintain the various information systems, collect premiums and instalments, build a network of services, among other tasks. In that sense, administrative expenses are there to keep the company in functioning order. The group of carriers affiliated to FenaSaúde has a low administrative expense ratio compared to other groups under analysis. The high ratio observed in small carriers with low economies of scale for supplementary health operations is a reason for concern.

Once other healthcare / administrative / commercial / tax expenses are added, the percentage of committed revenue rises, thereby reducing the margin. The combined and wide combined ratios express the high absorption of resources, which exceed the revenue of small carriers. The economic viability of the supplementary health business essentially depends on combined ratios below 1.0. Financial gains from investment of mandatory technical reserves can mitigate these ratios, but the success of the operation remains a crucial factor, requiring techniques, professionalism and efficiency from health carriers in all aspects of the operation. However, costs caused by exogenous factors (legal or regulatory costs) continue to squeeze the margins in the industry.

**Table 3 – Profitability Ratios**

	ROA	ROE	NPM	EBIT	EBITDA
Supplementary Health Market*	2.92	8.14	2.05	5.38	5.79
FenaSaúde	3.28	7.22	2.84	7.50	7.89
Market without FenaSaúde	2.48	10.21	1.42	3.70	4.12
Medical Cooperative	3.44	14.68	2.11	4.43	4.79
Large	3.44	16.89	2.00	4.26	4.58
Medium	3.29	12.06	2.18	4.63	5.01
Small	3.92	12.14	2.97	5.33	5.98
Medical Group	(1.19)	(4.26)	(0,54)	1.61	2.23
Large	(0.29)	(1.24)	(0.11)	1.84	2.59
Medium	(1.60)	(5.19)	(0.72)	1.36	1.81
Small	(2.09)	(6.72)	(1.56)	1.51	2.19

Notes: \* Study sample (579 health carriers).

ROA – Return on assets<sup>13</sup>

ROE – Return on equity<sup>14</sup>

NPM – Net Profit Margin<sup>15</sup>

EBIT – Earnings before interest and taxes<sup>16</sup>

EBITDA – Earnings before interest, taxes, depreciation and amortisation<sup>17</sup>

Source: Document with periodical information of healthcare plans carriers – DIOPS / AN – Accessed on 11/Apr/2014.

<sup>13</sup> Net income / total assets.

<sup>14</sup> Net income / equity.

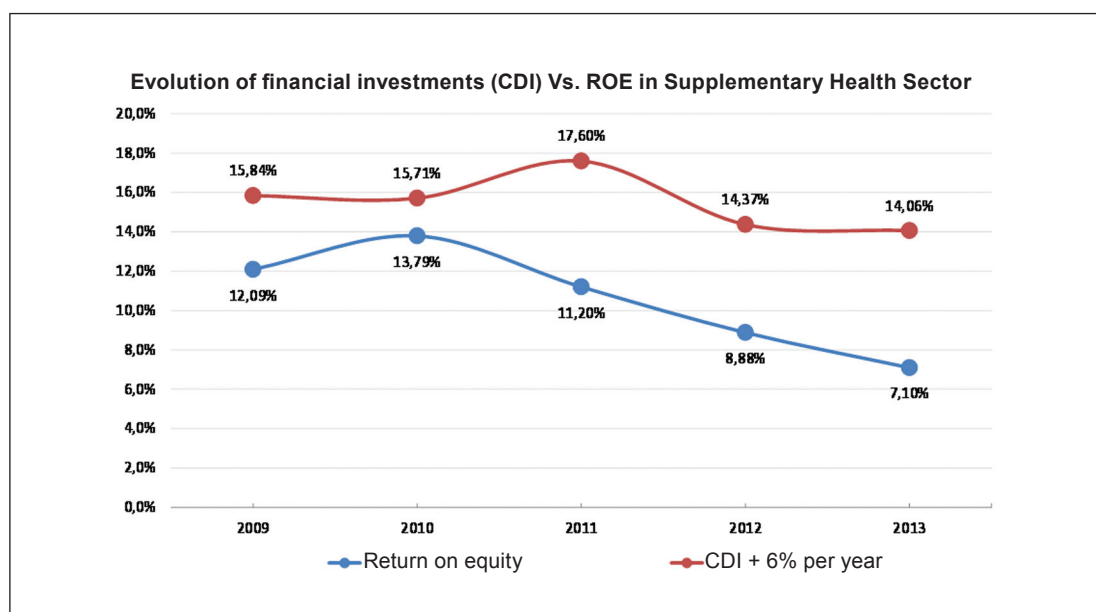
<sup>15</sup> Net income / revenue.

<sup>16</sup> Net Profit + financial expenses + Income Tax + Tax on Net Income (CSLL) – deferred taxes / revenue.

<sup>17</sup> Net Profit + financial expenses + Income Tax + Tax on Net Income (CSLL) – deferred taxes + depreciation + amortisation / revenue.



Return on investment and profitability indexes, in their distinct financial forms, were very low. In the Medical Group, in particular, they were negative. In cooperatives, high ROE leads to lower equity rather than high profitability. More important than observing the return on assets in 2013 is to observe its tendency compared to the cost of capital opportunity, for example, measured by the return on CDI (Brazilian Interbank Deposit Bond). The graph shows the tendency for these variables to grow further apart over the past five years. And in a market economy, even if it is regulated, investments which do not exceed the cost of capital opportunity are often avoided because investors are not interested in them. How to face the challenges that demography and longevity impose on us without the support of private investors?



Source: ANS and Central Bank

Liquidity ratios, which are ratios between assets and liabilities in different time dimensions, are usually interpreted as “the higher, the better”. The “break-even point” for all of them occurs when the result of the division is equal to 1 (one), indicating that the company “owns” a monetary unit for each part. If we take the result as being equal to one (1), as appropriate in the sector, one can observe that the ability of the market to pay in the long run (LG) is satisfactory. However, one can also observe in the classification according to size, that in the modalities of medical cooperative and medical groups, results come close to one (1) or even lower, indicating the fragility of the financial situation of these companies.

**Table 4 – Liquidity Ratio**

	<b>GL</b>	<b>CL</b>
Supplementary Health Market*	1.20	1.13
FenaSaúde	1.41	1.08
Market without FenaSaúde	1.01	1.16
Medical Cooperative	1.03	1.18
Large	1.02	1.12
Medium	1.01	1.26
Small	1.12	1.38
Medical Group	0.95	1.09
Large	0.95	1.11
Medium	1.01	1.14
Small	0,86	0.95

Notes: \* Study sample (579 health carriers).

GL – General liquidity<sup>18</sup>

CL – Current liquidity<sup>19</sup>

Source: Document with periodical information of healthcare plans carriers – DIOPS / AN – Accessed on 11/Apr/2014.

Considering the indebtedness ratio in the supplementary health sector, it can be observed that more than 60% of the carriers' debts are due to be paid in the short term. Thus, for every R\$ 100.00 of debt that carriers have, R\$ 61.13 are due in the short term, i.e., in a period of less than one year.

<sup>18</sup> Current assets + viable assets in the long term / current liabilities + long term liabilities. It shows the ability to pay in long term.

<sup>19</sup> Current assets / current liabilities. It shows the relationship between the convertible assets into cash in the short term, and debts in the short term.



**Table 5 – Capital Structure Ratios**

	<b>INDEBT</b>	<b>ST-INDEBT</b>	<b>LT-INDEBT</b>	<b>IC</b>
Supplementary Health Market*	64.11	39.19	24.92	61.13
FenaSaúde	54.49	31.93	22.56	58.60
Market without FenaSaúde	75.67	47.91	27.76	63.31
Medical Cooperative	76.56	45.47	31.09	59.39
Large	79.56	46.37	33.19	58.28
Medium	72.65	43.79	28.85	60.28
Small	68.02	44.70	23.32	65.72
Medical Group	72.23	57.28	14.95	79.30
Large	76.82	61.47	15.35	80.01
Medium	69.26	55.62	13.64	80.30
Small	69.31	52.66	16.65	75.98

Notes: \* Study sample (579 health carriers).

INDEBT – Indebtedness ratio<sup>20</sup>

ST-INDEBT – short-term indebtedness ratio<sup>21</sup>

LT-INDEBT – long-term indebtedness ratio<sup>22</sup>

IC – Indebtedness composition (the percentage of debt maturing in the short term)<sup>23</sup>

Source: Document with periodical information on healthcare plans carriers – DIOPS / AN – Accessed on 11/Apr/2014.

### **Insolvency**

Out of 1,143 carriers who disclosed the equity result (NW) in 2013, 92 had negative outcome (NW < 0), representing 8.0% of the total. Also, 62 carriers had negative equity in 2012 as well. Taking into consideration those 92 carriers with negative equity, 35 carriers (38.0%) suffered some type of intervention by the ANS. The most frequent form of intervention that occurred up until July 2014<sup>24</sup> was the official establishment of the regulatory intervention scheme, which was applied to 16 operators (45.7%). Other interventions were: portfolio conveyance, 7 carriers (20.0%), and subsequent cancellation of the license and 6 carriers (17.1%).

In the sample used for the first study (579 health carriers), 43 of them had negative equity, and excluded all of the 21 affiliated to FenaSaúde. Below is the classification of solvent and insolvent carriers by type and size.

<sup>20</sup> Current liabilities + long-term liabilities / total assets.

<sup>21</sup> Current liabilities / total assets.

<sup>22</sup> Long-term liabilities / total assets.

<sup>23</sup> Current liabilities / total liabilities.

<sup>24</sup> Operational Resolutions published in the governmental official Journal up until 22/Jul/2014. Source: ANS.

**Table 6** – Sample by Type

Type	Solvent Carriers	Insolvent Carriers	Total
Medical Cooperative	294	10	304
Medical Group	230	33	263
Insurer Specialised in Health	12		12
<b>Total</b>	<b>536</b>	<b>43</b>	<b>579</b>

Source: Document with periodical information of healthcare plans carriers – DIOPS / AN – Accessed on 11/Apr/2014.

**Table 7** – Loss Ratios for Solvent and Insolvent Carriers

Type and Size	Solvent	Insolvent	General
Medical Cooperative	81.6%	89.4%	82.2%
Large	82.3%	88.8%	82.9%
Medium	81.1%	94.2%	81.4%
Small	77.6%	97.5%	78.1%
Medical Group	80.6%	87.6%	80.8%
Large	81.0%	89.0%	81.1%
Medium	79.2%	92.6%	80.3%
Small	79.2%	78.4%	79.0%
Insurer Specialised in Health	81.1%		81.1%
Large	80.7%		80.7%
Medium	82.2%		82.2%
Small	142.9%		142.9%
<b>General</b>	<b>81.1%</b>	<b>88.8%</b>	<b>81.5%</b>

Source: Document with periodical information of healthcare plans carriers – DIOPS / AN – Accessed on 11/Apr/2014.

What becomes clear after analysing the data on the table above is that the difference between the loss ratios of solvent and insolvent health carriers is significant, which suggests that this is an important indicator to be controlled and observed if further insolvencies in the market are to be avoided. The revenue of insolvent carriers in 2013 was R\$ 3.9 billion, or 3.5% of the market, while healthcare expenses were R\$ 3.4 billion, or 3.8% of the total market. In terms of beneficiaries, the insolvent carriers account for 1.8 million, or 3.7%. In terms of size, 65% (28) are small-sized carriers; 26% (11) are medium-sized carriers, and 9% (4) are large carriers. The total negative equity amounts to R\$ 473.4 million.



**Table 8** – Equity – Healthcare revenue and expenses (insolvent carriers)

Type and Size	Revenue	Expenses	Beneficiaries
Medical Cooperative	2.7	2.4	1,024,419
Large	2.4	2.2	910,005
Medium	0.2	0.2	86,072
Small	0.1	0.1	28,342
Medical Group	1.2	1.0	817,746
Large	0.4	0.3	265,732
Medium	0.5	0.4	315,906
Small	0.3	0.2	236,108
<b>Total</b>	<b>3.9</b>	<b>3.4</b>	<b>1,842,165</b>

Source: Document with periodical information of healthcare plans carriers – DIOPS / AN – Accessed on 11/Apr/2014.

#### 4. Conclusions

The outcomes show that the increase in costs in the sectors, especially those related to technological upgrading, and to Orthotics, Prosthetics and Special Materials (OPME), as well as inadequate referrals, is aggravating the trend of rise in total expenses, and affecting the economic and financial situation of the supplementary health sector.

The expansion of mandatory covers, the inclusion and use of technological innovations without assessing cost effectiveness, the excessive and unnecessary demands for specific medical exams without due regard to the clinical history and examination of the patient, abuse in the use of Orthotics, Prosthetics and Special Materials (OPME), among other factors, contribute to the high loss ratios and increased expenses in the sector. The loss ratios and the industry tight margins demonstrate the worrying economic situation of the market, especially of small and medium-sized carriers that are not affiliated to FenaSaúde.

Since 2010, the supplementary health sector has been having low rates of return on equity. When compared with the evolution of main financial investments available in the market, especially CDI investments, it has been observed that the sector lacks financial attractiveness. The low return of capital opportunity cost tends to discourage investors.

One should bear in mind that the financial insolvency analysed by means of a conservative methodology, exposed the weakness of 92 health carriers (8% of the total). A number of them (35) suffered regulatory intervention.

In conclusion, if the trends here observed are maintained, especially the pressure of sector costs, insolvency could reach other companies that currently provide healthcare services to millions of Brazilians, and which are responsible for the access to more than 1 billion medical, dental, hospital, exams, and therapy procedures. The sector is also responsible for a great deal of resources that fund the operation of the main hospitals in this country. In brief, this is a system that must be preserved, economically speaking, since its sustainability produces benefits recognised by society. This system also has a great deal of positive external outcomes, and plays an important role in the funding of the public system.