

CHAPTER I
INTRODUCTION

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This Report has been written under the assumption that the potential for large gains in the efficiency of social protection programs is great. Some of the most important problems that beset national social security systems will be solved only after a proper focus is given to administrative and organizational issues. To deal properly with this issue, we must think about social insurance in a comprehensive way, because the whole collection of programs—public, private, or community arrangements—has the same objective: to provide stability to the welfare of families. We will see that several of the most important opportunities for gainful transformation come from the coordination across agencies (service providers and regulatory), governments, and communities. We shall also think about how administrative and organizational improvements impact customer care, operations, and financial results. Our ultimate goal is to enhance the likelihood of achieving the societal goals of social protection.

During the past years, many of the social programs in the world were reformed. Legal modifications to pensions and health systems, and the implementation of new tools such as capitalized pension systems, conditioned cash transfer programs, and managed health plans were common across the Americas. However, a few nations have kept the programs that existed in the '60s or '70s

with little change. In some cases, innovations are taking place to deal with emerging issues related to long-term care, childcare, or unemployment. Just a few years after the reforms, some countries are undergoing new legal changes. These policy agendas often stress the issue of defining "proper incentives" for the participating population: incentives to work, stay healthy, avoid permanent poverty, and so on. However, much less has been said about the issues related to the incentives of administrations, communities, and governments themselves. On the other hand, topics that would evidently benefit from modernization of operations are not always very high on the agendas. The reform trends have brought significant and positive transformations to the organization of social insurance. Some of the main changes are the following:

- On the issue of *horizontal* integration across programs, the agencies that combined the insurance functions for all risks (e.g., health and retirement) have often been split and superseded by specialized agencies; however, they are still the main players in several important cases in which national agencies remain as integrated financers and suppliers of a comprehensive range of programs.
- New programs have been added to traditional social insurance agencies; but also, in some cases, those have been seen as competing with or

displacing social security. Administratively, examples of positive synergies can be found, but in other events, the fit of the new programs has been poorly designed or executed.

- Reforms have often facilitated the adoption of new information technologies (IT) and customer service approaches.
- Decentralization and empowerment goals have become mixed with the pressure for stronger budgetary and database control, which can lead to either important synergies or conflict.
- *Vertically*, a general trend towards the creation of specialized regulatory agencies has emerged (e.g., fund manager regulators or health services commissioners). In addition, there seems to be a trend towards some *vertical separation of agencies*; for example, through splitting the financial and service provision processes into separate agencies, or as internal regulations to agencies.
- A trend towards stronger horizontal coordination of specific processes across agencies has also been observed.

On the other hand, a number of basic issues have been lost in the heated debates on the reforms. Often, policy actions and administrative tools that can be useful under a variety of conditions have not been developed after an undue entrapment with other issues of reform. Some examples are: 1) the inability of many countries to develop national databases to support affiliation and collection, as well as service and benefit provision; 2) the slow advance in empowering hospitals and other health providers due to excessive centralization; 3) the inability to integrate the financing for childcare that comes from social security with the general supply of the educational system; 4) the slow advance in improved relationships between workplace-risk insurance, work and safety conditions, and the regulations that relate the responsibility of employers to contributions to the social insurance system; 5) the often-observed condition of excessive litigation surrounding disability cases; and 6) the problems arising from an improper

interrelation between health insurance and long-term care services. Unfortunately, the list can go on.

It is not uncommon for excellent legislative pieces of social programs to accompany poor implementation. We often see public officials struggling to balance the needs of beneficiaries with limited resources and, at the same time, inefficient operations that do not seem to make effective use of the resources at their disposal. In many countries, political culture remains oriented to legislation, instead of executing and managing programs. Less common than legislative initiatives on benefits are those related to improving the run of the programs, in order to reform the way they are administered. Many see the obstacles imposed by the organizational culture and bureaucracies as insurmountable. Thus, we see private pension funds—including those in the reformed social security systems—providing online information on deposits and assets, and informing workers on retirement options. At the same time, national social security agencies often keep old practices to process pension applications, and only patch them with the use of computers. Similarly, in the face of dramatic improvements in the ability to manage patients' cases, prescription drugs, and medical records, social health insurance funds frequently operate with a lag of several years in adopting new technological options.

However, an urgent need exists to boost the public social programs' productivity to increase the quantity, quality, and diversity of the services provided. Budget pressures and beneficiaries' complaints must force leaders to overcome these obstacles. Leaders should take action to improve the productivity of social programs. Productivity is reached not only and in the mid-term not mainly through cost cutting. It can also be achieved by improving the human capital and technological capabilities to increase the quantity and quality of the services provided. Evidence from the general economic system indicates that, in the last 15 years, the potential for gains from reorganization and technological improvements has been very high.

Successful examples of programs that have increased their productivity can be found. In order to replicate results, public policy officials must take out of their minds that practices that have proven to be successful in the private sector do not apply to the public sector. However, they must also understand that there are no silver bullets that can be transferred across borders and organizations. More often, national culture and the administrative legacy of the social protection systems play determinant roles in the implementation of ideas.

Unfortunately, leaders also face another obstacle. Little information is available about the way programs should be administered. To improve productivity, political will is not enough. It is also necessary to understand the strategies, as well as the details, of the best practices in the administration of programs in order to adjust them to the idiosyncrasies of each organization. It is very useful to learn about other countries' experiences in order to identify basic principles. National conditions must be cleverly merged with global trends to find the best solution. Frequently, organizations are embroiled in day-to-day operations. A full change to boost productivity may need a lot of will, but it cannot be achieved without smart planning and an understanding of the possibilities. It also requires updated information on the future of agencies, programs, and regulatory, financial, and operative aspects. Public agencies that have improved their productivity have resorted to one of the following strategies: operational redesign, organizational redesign, and strategic procurement (Dormhann & Mendoca 2004).

This Report will provide the basic principles needed to improve the productivity of social programs, with a focus on operational and organizational redesign. Thus, far from driving towards a diagrammatic analysis of social insurance, this Report proposes that an open "green meadow" can substantially improve the organization and administration of a variety of social programs. This vista does not involve the issues such as privatization, funding, taxation, or equity that have often defined

the strategies for national policies. Certainly, those issues have not become secondary; however, we can open an avenue for research to identify successful administrative and organizational strategies and experiences in a systematic way, not as anecdotes. In addition, social security agencies—national or regional, specialized or multi-insurance, public or private, vertically integrated or decentralized—can find solutions to significant problems in the approach proposed. These solutions are not easy to achieve, nor are they easier than "policy approaches." Organizational reform defines challenges that may require long-term commitments and decisive leadership, as well as substantial financial resources.

In this Report, information is provided about the best operational and organizational practices. Regarding operational redesign, the Report puts emphasis on how the processes should be aligned, to improve productivity and services provided to citizens. Regarding organizational redesign, the Report describes the new trends in organization, and assesses under which circumstances vertical and horizontal integration are profitable. Here, horizontal integration means managing different programs by a single institution, and vertical integration means that a single institution manages the whole process of social programs, from affiliation (and often including regulation) to the delivery of services.

The Report will also highlight what the role of the regulators should be in increasing the productivity of social security programs. The study stresses the idea that regulators should focus their actions on those organizations and processes that most affect the relevant outcomes. The role of the regulators in this Report naturally emerges as we analyze the way programs are managed.

This is only a step in the CISS research agenda to understand best practices in the management of social programs. Operational design is a constant and dynamic process, as implementation of best practices should be done in a continuous fashion. Analysis should be understood in this context. The Report provides the best practices of general

application; each institution should address the answers to detailed situations. However, one of the main recommendations is that even the most specific organizational change should conform to an overall strategy and enterprise architecture.

The Report analyzes the processes of the following social programs: 1) pensions; 2) general disability; 3) health insurance; 4) workers' compensation insurance; 5) unemployment insurance and employment services; 6) childcare; 7) long-term care; and 8) supplementary programs, particularly cash-transfer programs. Special chapters deal with how changes have transformed agencies and government actions, and summarize the recommendations.

Most of the information in this Report comes from the literature on management, which is contrasted to the current situation of organizations in the Continent. Information on the current situation was gathered by public and private sources. We thank all the CISS members who provided us with the information needed to write this Report.

The Report is organized as follows: Chapter II describes the methodology used in the Report. The conclusion of this analysis is that processes are common across programs, and specific processes pertain to each program. This chapter sets the common structure for the organization of the Report. Chapter III analyzes the common processes in detail. Chapters IV to XI analyze the specific processes of each of the risks covered by social insurance. Chapter XII analyzes the issues of vertical and horizontal integration, the way agencies have been transformed, and the role of regulators. Chapter XIII discusses the case of the Caribbean countries. Finally, Chapter XIV summarizes the recommendations.