

The Growth of Private Health Insurance in China and its Challenges and Opportunities

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Since the initiation of the first health care reforms in the late 1990's, China has pioneered a program of public health care and universal insurance reforms that is unprecedented in scope and scale. The result of these campaigns to drive improvements, in combination with higher living standards and the reduction of poverty, is marked by a significant decline in mortality and increase in life expectancy. It is said that a child born in China today can expect to live more than 30 years longer than their forebears half a century ago; half the time it took certain "rich" countries to achieve the same gains.¹

The Development of Chinese Health Care Insurance

Because of these efforts, China has achieved the commendable goal of extending a system of universal medical insurance coverage to approximately 97% of Chinese residents from approximately 30% back in 2003. It has done so largely through its insurance schemes for employed urban residents, unemployed urban residents, and rural residents². Health care expenditure as a percentage of total fiscal expenditure has increased from around 4.2 per cent in 2002 to 6.8 per cent in 2015³, with the number of private hospitals more than doubling over six years to 16,900 in 2017⁴. This has been accompanied by a decline in aggregate out of pocket expenditure from around 60% in 2001 to 32% in 2014⁵. Whilst this increased expenditure is in part attributable to China's strong economic growth and expanding social insurance programs, it continues to outstrip GDP growth, which, together with other signs, has raised concerns for future affordability. Although comparatively lower than equivalent levels of expenditure in certain "mature" economies, it has raised concerns over future sustainability, for which reform, and the further development and uptake of private health insurance and medical facilities is viewed as a desirable "antidote". That said, for as long as China's residents' income levels continue to rise, and mortality and fertility rates fall, corresponding demand for the use of higher-level facilities, more modern and expensive items, longer stays and treatment of chronic ailments, will likely offset attempts to cut expenditure on healthcare.

¹ Deaton 2013; Deepening Health Reform In China: Building High-Quality And Value-Based Service Delivery; Policy Summary; China Joint Study Partnership; World Bank Group, World Health Organization, Ministry of Finance, National Health and Family Planning Commission, Ministry of Human Resources and Social Security 2016 <https://openknowledge.worldbank.org/bitstream/handle/10986/24720/HealthReformInChina.pdf>

² <http://international.commonwealthfund.org/countries/china/>

³ <http://www.scmp.com/business/companies/article/2076196/chinas-dire-need-reform-health-care-sector-seen-opportunity>

⁴ According to China's National Health and Family Planning Commission (NHFP); http://www.xinhuanet.com/english/2017-08/12/c_136520821.htm

⁵ Deepening Health Reform In China: Building High-Quality And Value-Based Service Delivery; Policy Summary; China Joint Study Partnership; World Bank Group, World Health Organization, Ministry of Finance, National Health and Family Planning Commission, Ministry of Human Resources and Social Security 2016 <https://openknowledge.worldbank.org/bitstream/handle/10986/24720/HealthReformInChina.pdf>

In conjunction with the expansion of coverage, there has also been a gradual deepening of benefits. Service capacity has increased, utilization of health services has risen and the aggregate out of pocket spending (as borne by patients) as a share of total health expenditures, has fallen⁶. This has led to more equitable access to care and greater affordability overall. The 2009 health care reform's built upon the implementation of the public insurance schemes by providing free coverage for twelve categories of basic public services, including care for several chronic conditions, an essential drug program, and subsequent regulations to encourage greater private sector participation and financing towards the construction of primary care facilities.⁷ Health care reforms under the 13th Five-year Development Plan for 2016–2020⁸ have further placed “population health improvement” as the main goal; the so-called “Healthy China” strategy to “deepen the reform of the medical and health systems, promote the interaction of medical services, health insurance and pharmaceutical supply, implement the tiered delivery system and establish primary care and modern health care systems that cover both urban and rural areas.”⁹

Widened Coverage, but a Shortfall in Protection from Costs

Despite the successful expansion of its universal healthcare program, and deepening reforms, concerns remain over the quality and affordability of the coverage on offer. With the increasing burden of non-communicable diseases, such as diabetes, cancer and Alzheimer's, that are not easily treated, and an increasingly elderly population, the screw continues to turn tighter. A typical look at the drug exclusions and co-pay requirements of various related policies reveals a shortfall in adequate protection. Relatively low reimbursement caps and co-payment requirements of 10-20% (up to 25-30% in some cases) can impose a high burden. To this extent, private citizens still feel the need to squirrel away cash to cover health-related contingencies, even before accounting for those that may not take up medical services due to lack of adequate coverage.

Private Healthcare Reforms

The complicity of factors fueling the funding deficit, together with a general perception amongst an increasingly affluent middle class that their needs are not being wholly met by existing public health insurance coverage, has seen the Chinese Government take policy driven measures to stimulate the development and uptake of private health services and insurance. The advent of newer disruptive models for delivering health and insurance services online in recent years, coupled with an increasing demand for convenience and quality in general, has provided further incentive in this direction.

⁶ For example, by 2014 reimbursement rates for inpatient services of the three main social insurance schemes (UEBMI, URBMI and NCMS) were raised and differences significantly narrowed, reaching 80, 70 and 75 percent reimbursement respectively; per Deaton 2013; Deepening Health Reform In China: Building High-Quality And Value-Based Service Delivery; Policy Summary; China Joint Study Partnership; World Bank Group, World Health Organization, Ministry of Finance, National Health and Family Planning Commission, Ministry of Human Resources and Social Security 2016 <https://openknowledge.worldbank.org/bitstream/handle/10986/24720/HealthReformInChina.pdf>

⁷ Deepening Health Reform In China: Building High-Quality And Value-Based Service Delivery; Policy Summary; China Joint Study Partnership; World Bank Group, World Health Organization, Ministry of Finance, National Health and Family Planning Commission, Ministry of Human Resources and Social Security 2016 <https://openknowledge.worldbank.org/bitstream/handle/10986/24720/HealthReformInChina.pdf>

⁸ Per the Central Committee at the 18th Session of the Fifth Plenary Session of the CPC on October 29, 2015

⁹ *ibid*

On the back of these policy, regulatory and taxation driven measures, the private insurance market is projected to reach revenues of over RMB 1.1 trillion by 2020¹⁰. This has been reflected in notable increases in private healthcare penetration rates. Reforms have also included several key supportive policies to streamline approval procedures for setting up private hospitals, expanding the state medical insurance scheme to qualified private hospitals, supporting doctors from public hospitals to practice in private ones, and allowing private hospitals to set prices for medical services by themselves¹¹. Even public hospitals have noticed the relative ease of providing better care to those with private medical insurance, and employer are recognizing the benefits of offering a comprehensive package of private group medical insurance as a modern means for attracting employees.

Challenges and Opportunities for Private Insurers.

Despite the vested interests of a range of stakeholders in developing the private health insurance market, the market has remained underdeveloped, and considered to be generally unprofitable by Chinese insurers compared with life insurance lines. Insurers have also found it a challenge to stimulate uptake by a consumer base that is relatively unfamiliar with the added value of such products and have relied largely on selling them in the form of “add-ons” or “riders” to existing life and accident insurance products. There are certain structural and societal factors behind this.

One of these is that existence of capped payments for a defined group of diseases, and a prevalence of critical illness coverage providing a one-off payment upon diagnoses of a specific illnesses etc., fail to provide potential customers with the peace of mind they need to make such an investment. That said, a general perception that health needs are as important as financial ones holds promise that a sizable opportunity lies for those insurers that can overcome these hurdles and market their products effectively.

Another is that some of the more comprehensive health insurance products traditionally require a sales team and/or brokerage network to explain and sell them. Brokers have the knowledge to better match products with customers and explain the terms, conditions and terminology, and provide a second point of recourse should there be a legal dispute. It is also less likely an independent broker would mis-sell a product¹². Therefore, private health insurance policies may not offer the same scope to benefit from China’s digitized marketing channels as other simpler insurance products, relying instead on more traditional methods of sale.

Furthermore, a lack of transparent, digitized and integrated medical data makes it more challenging for insurers to underwrite and manage risks profitably and handle the claims process knowledgeably. The lack of a standardized and comprehensive data environment is an ongoing challenge that the government

¹⁰ Per report by BCG and Munich Re “Opportunities Open Up in Chinese Private Health Insurance <https://www.munichre.com/en/media-relations/publications/company-news/2016/2016-08-24-company-news/index.html>

¹¹ <http://www.scmp.com/business/companies/article/2076196/chinas-dire-need-reform-health-care-sector-seen-opportunity>

¹² Where, for instance, a customer may attend a private hospital only to find there is a substantial co-pay requirement on the policy, or for high value surgeries, that pre-existing conditions are not covered, or that there is no direct billing between the insurer and that particular hospital network, and other deductibles, for example. <http://www.smartshanghai.com/articles/wellbeing/in-depth-the-ultimate-guide-to-health-insurance-in-china>

and insurance providers are set upon addressing. Further collaborations between insurers and hospital providers, coupled with a larger body of digitized data garnered from health-related claims, reimbursements and hospital records, has the scope to provide a more granular, population-wide view on risks and morbidity, from which better underwriting and product coverage may be derived. As it stands, this lack of data has given rise to a lack of product diversification centered on protection from certain critical diseases, hospitalization payouts, accident insurance and VIP treatment in hospitals. This relative lack of differentiation has meant that competition based on price and commissions has weighed on the overall profitability of the sector.

Neither have public hospitals been properly incentivized to collaborate with insurers until recently. The agenda of insurers is to optimize patient turnover, with a balanced mix of cases, an emphasis on improving population health outcomes, and treatment at general practitioner level. This does not sit comfortably with the remuneration model for China's treatment focused and hospital-centric public health services however, which are based on fees for services, margins generated for prescribing drugs and procedures, and admitting patients to hospitals for lengthier stays¹³.

As a result, the average length of a hospital-stay, a key driver of higher costs, is high in China relative to OECD countries, and public expenditures on hospitals is less equitable to the less well-off that are more likely to access primary levels of care¹⁴. To address this imbalance, continuing Government reforms are expected to provide a starting point for a more collaborative model with insurers. This may be achieved by the Chinese social insurance services incentivizing health service providers to deliver more cost-efficient services more closely aligned with patient outcomes e.g. by incentivizing day care and day surgery, high priority outcomes connected with vaccination coverage, effective diabetes case management, and high blood pressure, amongst others. Strategic utilization of social insurance funds over the simple balancing of revenues with claims may lead to more efficient outcomes.¹⁵

The overall effect is that the Chinese health insurance market, despite having made tremendous progress over the last few decades, has not been as mature, innovative or profitable as it ultimately could be. This has been exemplified by mature foreign undertakings with sophisticated health insurance operations in other countries, choosing to focus on narrower, more profitable niche areas catering to expats and the delivery of high-end services/overseas treatment.

Things are however now changing with the further implementation of preferential tax policies, and simplified claims settlements in accordance with the State Council's policy goals. Hospital reform measures for more efficient operation and management of medical expenses may also encourage hospitals to join the provider networks of private insurance companies, both via foreign joint ventures and domestic outfits. Those insurers that exercise the skills and relationships required to enroll hospitals and set up the relevant systems and processes, may thereafter be rewarded with a competitive advantage in the market. Significantly, the lifting of government restrictions on insurers investing into the Chinese health care sector¹⁶ has also opened opportunities to get involved by other means, such as investing directly in health care providers, partnering in data and claims management, and in the development, piloting and management of digital medical records. Taikang Life is an example of an insurer that is now

¹³ <http://www.scmp.com/business/companies/article/2076196/chinas-dire-need-reform-health-care-sector-seen-opportunity>

¹⁴ Deepening Health Reform In China: Building High-Quality And Value-Based Service Delivery; Policy Summary; China Joint Study Partnership; World Bank Group, World Health Organization, Ministry of Finance, National Health and Family Planning Commission, Ministry of Human Resources and Social Security 2016

¹⁵ *Ibid*

¹⁶ <http://www.nortonrosefulbright.com/knowledge/publications/128859/china-new-healthcare-reform-2020>

investing billions to build a network of hospitals, elder-care communities, and specialty facilities, and Sunshine Insurance was one of the first insurers to build a 2,000-bed hospital that opened for business in May 2016¹⁷. For the sale of longer-term reimbursement health insurance products in what is a rapidly growing and potentially very lucrative market however, success will likely hinge on granulating data, segmenting customers according to their specific needs and gearing marketing efforts to them appropriately. Having the right strategy, knowledge, data, administrative systems and processes, provider connections, economic clout and entrepreneurial vision to roll out the right products at the right time in the next few years, should be key in separating out the winners from the losers.

¹⁷ <https://www.bcg.com/publications/2016/insurance-health-care-payers-providers-opportunities-open-up-in-chinese-private-health-insurance.aspx>