Waiting for the boom

Helen Chen and Yanyan Lin of L.E.K. Consulting examine China’s nascent private health insurance market

Chinese Vice Premier Li Keqiang recently sparked renewed interest in the private health insurance market. Li, who is likely to replace Wen Jiabao as premier later this year, wrote in the official Party newspaper “Qiu Shi” that the Chinese government should “actively develop commercial health insurance” and “facilitate the integration of basic medical insurance and commercial medical insurance.”

Though Li’s comments ignited the interest of the media and healthcare professionals, his arguments are not new. Beijing first mentioned developing private insurance as a supplement to China’s primarily public health insurance in the 9th Five-Year Plan in 1996, and President Hu Jintao and Wen Jiabao have both emphasized the industry’s importance in recent years.

But despite this high-level attention, the industry remains small and immature. Do Li’s latest comments indicate a serious intent to develop private health insurance as a supplement to the public program? Or is this yet more high-level policy guidance without concrete details?

A sum of parts

Healthcare for Chinese has so far mainly come from public programs. The three largest programs, which serve urban employees, urban residents and rural co-operatives, now provide basic medical insurance for more than 90% of China’s population. That coverage has expanded drastically, up from only 24% of the population in 2005, due largely to a US$135.1 billion commitment to health care reform from the government in 2009.

Private health insurance coverage in China has also expanded, though from a low base. The market now serves around 7% of China’s population and has grown an impressive 27% annually over the past 10 years. Per capita spending on insurance grew tenfold over the past decade. Private health insurance has been playing an increasingly important role in healthcare funding, though it still accounts for less than 2% of healthcare spending.

The number of health insurance plans in the market has also increased, from around 300 in 2008 to more than 1,000 today. Most of these plans are either supplemental hospitalization insurance (a partial payment for hospitalization expenses in addition to government reimbursement) or severe disease insurance (a lump sum payout to insurees who contract a severe disease). Beyond these, however, the variety of products is limited.

Although private health insurance is growing quickly in China, few would say that it has “taken off.” Even so, there are several major ongoing trends in China that suggest the market has a bright future. China’s aging population, increasing life expectancy, continued urbanization and increasing personal income are all expected to drive healthcare expenditure, as is the increasing awareness of the concept of insurance.

A survey conducted last year by Swiss Re showed that young Chinese are less willing to take risks compared with a previous survey conducted in 2009. Some 72% of respondents said they were planning to buy life or health insurance products within the next year, while 54% were concerned about making out-of-pocket medical payments for major illness. Even with China’s 2009 healthcare reform, these concerns are justified. Severe diseases are becoming more prevalent in China. Incidences of cancer, for example, are expected to increase by 1.2-5% annually from 2010 to 2030. That translates to around 600,000 and 1 million new patients diagnosed with colorectal and lung cancer each year, respectively.

Most Chinese do not have the financial means to pay for treatment of these diseases, even with the help of public programs. Social insurance reimbursement coverage for severe diseases is now available in many cities for those on the urban insurance programs, but it is often neither uniformly available nor sufficiently reimbursed. Most cities do not reimburse patients for targeted cancer therapies or pre-dialysis treatment for chronic kidney disease. In second- and third-tier cities, most public programs also require patients to pay out-of-pocket for dialysis treatments. These situations leave patients and their families struggling and create an opportunity for private health insurance and specialty insurance to fill the space.

The Chinese government is aware of these gaps. Since 1996, Beijing has consistently emphasized private health insurance as a much-needed supplement to the public scheme. Local governments have acted on central directives by launching pilot partnerships with private companies. These initiatives appear to be gathering momentum. Some, like the governments of Fujian province and Chongqing, allow private insurance companies to manage public schemes. This has allowed governments to leverage private companies’ expertise in areas like benefit design, enrollment and provider management, as well as tap into their funding. In return, private insurance companies gain the opportunity to strengthen their brand and cross-sell life insurance products to consumers.

Local governments have also organized collaborations between hospitals and private insurers, paving the way for development of a local private health insurance market. The most common collaboration is in instant claim initiatives, in which bills are settled before the patient is discharged. The cities of Wuxi and Tianjin and the provinces...
of Henan, Shaanxi, Shanxi and Hunan are currently running pilot programs.

On occasion, local governments have ventured into supplemental health insurance. For example, Xiamen has provided supplementary commercial coverage for all registered urban employees since 1997, covering expenses above the maximum covered by social insurance (RMB53,000, or about US$8,400) up to RMB150,000 per patient per year, with a 10% co-pay.

Public hospitals are also working to standardize healthcare and payments, reforms that will benefit the private insurance market in another way: by providing more robust data for analysis and future rate setting. The Ministry of Health released 112 clinical treatment guidelines in 2009 which are allowing the standardization of treatment and the formation of a rich pool of data about patient characteristics and epidemiology.

Insurance companies are eager to tap into this growing market. Currently, all of the top 10 life insurers and seven of top 10 property insurers in China offer private health insurance, and all of these companies are working to enhance their private health insurance offerings. China Life expanded its own instant claim initiative from one pilot in Deyang, Sichuan province in 2004 to more than 400 hospitals by the end of 2009. The company said in 2010 that the initiative would expand to its entire network within the next two to three years. Ping An Insurance, Aviva-Cofco, People’s Insurance Company of China and Taikang Life Insurance have launched similar programs.

In addition, more foreign insurance providers are entering China, bringing much-needed expertise. China’s life insurance market is currently home to 28 foreign companies, though the space is still dominated by domestic players like China Life and Ping An Insurance.

Senior executives of numerous global health insurance firms have emphasized the critical importance of the China market. Prudential Financial established a life insurance joint venture with Fosun International in 2011, the first deal in China for a non-state owned life insurer, while Insurance Australia Group and Allianz SE bought stake in Bohai Property Insurance and China Pacific Insurance respectively. WellPoint and British United Provident Association are actively looking for joint-venture partners.

**Shaping the wealth**

We at L.E.K Consulting agree with that the market presents a huge opportunity, though we also acknowledge significant barriers to growth. We estimate that China’s private health insurance market will grow 10–26% per year over the next decade to roughly US$274–11 billion in 2020, boosted by consumer awareness, rising incomes and favorable government policies such as tax incentives.

Nevertheless, foreign insurers, private investors and other companies in the industry need to be aware of several challenges. First, the products currently on offer are very similar and competition mainly centers on price, increasing the risk of failure for insurers. In addition, current insurers have only small pools of data making it difficult for them to use more robust statistical techniques and structure new products. Finally, the current incentive structure in the healthcare system encourages over-prescription. As a result there are few controls on the cost of treatment, making it more expensive for private insurers to do business.

The future is not straightforward. Will Beijing or local governments embark on new initiatives to develop the market and remove obstacles? If so, what initiatives will they favor, and how can foreign insurers and healthcare professionals support, influence and benefit from such initiatives?

In our view, opportunities differ for various market participants. Insurance companies operating in China could seek to improve their product offerings, targeting the broader population with basic supplementary coverage and the affluent with specialized and comprehensive offerings. Foreign insurance companies should consider jumpstarting their China business by partnering with local companies. Insurers can also partner with provincial or city governments to provide expertise and data in actuarial operations and claims administration.

Pharmaceutical and medical devices companies, meanwhile, can form alliances with insurance companies to contribute to patient education, recommend cost-effective treatments, and improve awareness and affordability of drugs or devices. Healthcare services companies can provide IT-related expertise to hospitals or insurers.

Will there be a private insurance market in China? Definitely. Is its emergence imminent? No. But the companies that will succeed are likely to be those who ready themselves to influence and act upon the opportunities that the rapidly evolving China market will present.

**IN THE WORKS A timeline of government statements**

9th FYP: “... actively develop commercial insurance to exert its supplemental role in social care...”

11th FYP: “... develop enterprise supplemental insurance and commercial insurance...”

Healthcare Reform: “... use commercial health insurance as complement, ... actively develop commercial health insurance, ... encourages corporation and individuals to participate in commercial health insurance to supplement basic medical care, ... explore outsourcing to qualified commercial insurance organizations to manage medical care management services...”

12th FYP: “... actively develop commercial health insurance, to supplement medical insurance system...”

10th FYP: “... encourage employees with affordability to voluntarily subscribe to commercial medical insurance...”

President Hu Jintao: “... social insurance as fundamental, ... basic medical insurance as a focus, ... and commercial insurance as a supplement...”

Premier Wen Jiabao: “... social insurance as fundamental, ... basic medical insurance as a focus, ... commercial insurance as a supplement...”

Vice Premier Li Keqiang: “... actively develop commercial health insurance...” ([2011-11-29]); “... facilitate the combining of basic medical insurance and commercial medical insurance...” ([2011-11-17])