Executive Summary

I. Introduction

Over the last 40 years, China has experienced rapid and remarkable economic transformation. China is now one of the largest economies in the world with a thriving middle class. This significant growth, however, has ushered in substantial demographic changes: an expanding middle class, ageing population, and shifting burden of disease. By placing mounting pressure on the healthcare system, these changes threaten China’s long term, sustainable growth because a healthy population is a critical driver of productivity and consumption.

The Chinese government has recognized this challenge. Its Healthy China 2030 blueprint considers public health a pre-condition for future economic and social development and outlines the government’s vision to create a sustainable, multi-layered medical security system. In March 2020, the Chinese government’s Guideline on Deepening Reform of Medical Insurance System expanded on this vision. With the government-financed basic medical insurance (BMI) at its core, the new system seeks to support various forms of supplementary financing and services, including a prominent role for commercial health insurance. The State Council’s Vision is to see such a system in place by 2030.

These developments represent a significant opportunity for China’s nascent commercial health insurance industry. But industry must first transform itself if it wants to play a key role in supporting a multi-layered medical security system. The key to transformation lies in innovation – harnessing technological advances, developing new business models, and pursuing novel partnerships to support a broader, values-based ecosystem.

In this context, our research group initiated a project, titled The Transformation of Commercial Health Insurance in the Context of ‘Healthy China 2030’: Innovating through collaboration with the pharmaceutical industry. In this study, we:

- Identify the unique and important role commercial health insurance can play in China’s multi-layered medical security system;
- Review the development of the commercial health insurance industry in China to date and identify barriers to further growth;
- Consider international experience and capture useful lessons learned for China;
- Highlight the importance of cross-industry collaboration and explore how the pharmaceutical industry, in particular, could help drive innovation in the commercial health insurance industry; and
- Offer policy and industry recommendations to accelerate the development of commercial health insurance in China.

II. The Emergence of Commercial Health Insurance in China & the Pathway to Accelerated Growth

China’s commercial health insurance industry emerged from the market-orientated reforms of the 1980s. Development moved slowly, however, until recent years when a series of regulations and industry policies intended to deepen development were issued, including: the first basic comprehensive law in
the field of public health in China, Law of the People's Republic of China on the Promotion of Basic Medical and Health Care; the newly revised Measures for the Administration of Health Insurance, issued by the China Banking and Insurance Regulatory Commission (CBIRC); and the Several Opinions of the State Council on Accelerating the Development of the Modern Insurance Service Industry, jointly issued by 13 departments including CBIRC. Buoyed by these policies, the development of the commercial health insurance industry began to accelerate. The revenue of commercial health insurers in China surpassed RMB 500 billion in 2018 and reached RMB 700 billion in 2019.

Traditional life insurance and property insurance companies still dominate the commercial health insurance market. However, a number of new players are starting to emerge, offering more diversified products, improved user experience, better risk management capability, and a more holistic health management service—e.g., specialized health insurance companies, reinsurance companies, third party administrators (TPA), online insurance companies, and online insurance agency platforms.

More innovative product offerings have started to emerge. Perhaps the most well-known is the “Million-RMB” medical insurance. Other product innovations include specialty drug insurance, specialized disease insurance, and mutual aid programs.

Commercial health insurers have also started exploring novel business models, including collaborations with city/municipal governments. For example, some insurers are supporting city/municipal governments to operate their BMI, providing guidance and technical assistance to support the improvement and reform of local healthcare systems. In addition, several commercial health insurers have worked with city/municipal governments to launch innovative programs for city-level supplementary medical insurance.

To support future development of a robust multi-layered medical system and realize the potential of a trillion RMB market commercial health insurers must transform themselves. To do this, they should continue to:

- Diversify their product offering to expand coverage across different population groups (including high-risk groups) and extend the scope of coverage;
- Shift from a ‘claims management-oriented’ approach to a ‘managed care-oriented’ approach, by integrating more tailored healthcare management services; and
- Explore innovative business models, including collaboration with city/municipal governments to implement city sponsored/endorsed supplemental medical insurance and by supporting city/municipal governments to operate their BMI.

Commercial health insurers can accelerate their transformation by vigorously pursuing cross-industry and government collaborations. Insights shared by healthcare institutions, pharmaceutical companies, TPAs, and governments can help insurers improve their product offering, increase operational efficiency, minimize financial risks, and open new markets. For example:

- Partnering with healthcare institutions and pharmaceutical companies will help commercial health insurers strengthen their ability to provide integrated healthcare management services;
- Partnering with governments will help commercial health insurers to open new markets and refine their product design by promoting data sharing and information systems integration; and
• Partnering with smaller, nimbler TPAs will help commercial health insurers improve operational efficiency and design more innovative products.

III. International Experience

International experience can provide commercial health insurers in China with a number of insights to support the growth of their industry. In this context, we considered five case studies, including the United States (mixed public/private system), Germany and Japan (social systems), the United Kingdom (universal system), and Singapore (medical saving plus insurance model). Our analysis concluded that robust commercial health insurance industries are supported when:

• Governments have clearly defined the role commercial health insurance should play, relative to that of statutory public insurance, and this is codified in high-level policy;
• Governments have actively encouraged statutory public insurance and commercial health insurers to work together to build a multi-layered security system, with a focus on efficiency and quality;
• Commercial health insurers have committed to raising the level of professionalism within their industry, by recruiting relevant talent, and building connections with the upstream and downstream companies of the healthcare industry; and
• There is a strong commercial health insurance trade association, which communicates regularly with the government and with the healthcare and pharmaceutical industries.

IV. Collaboration between Commercial Health Insurers & the Pharmaceutical Industry

Experience in China and abroad shows us that commercial health insurers can accelerate the development of their industry by collaborating with external stakeholders, particularly the pharmaceutical industry. The pharmaceutical industry can help commercial health insurers to:

• Shift from claims management to a managed care approach, by integrating more tailored healthcare management services into their product offerings, including pharmaco-developed patient education and support programs;
• Design more innovative products by providing access to anonymized patient outcomes data and sharing knowledge/information on disease progression and treatment pathways;
• Expand their networks and explore new business models (e.g. public-private partnerships) by sharing their extensive networks with local government and medical providers;
• Raise their level of professionalism by helping them build capabilities in disease knowledge, real-world data, healthcare service network, and patient management systems.

Several commercial health insurers have already recognized this opportunity and started to build effective partnerships with the pharmaceutical industry. Early collaborations mainly focused on promoting targeted cancer treatments. For example, Roche worked with the commercial health insurance industry to launch a critical illness insurance product focused on cancer prevention. In recent years, pay-for-performance insurance and specialty drug insurance products have also become more prevalent. Companies have also explored the use of pharmacy benefit managers for chronic diseases.
However, the depth and extent of overall collaboration between the pharmaceutical industry and the commercial health insurance industry is still limited. Pharmaceutical companies mainly work with small TPAs rather than working directly with commercial health insurers. This means that most insurance programs from these collaborations have relatively small groups of targeted consumers.

Looking forward, commercial health insurers and pharmaceutical companies should work together to increase focus on the whole patient journey and population health, drive product innovations, strengthen healthcare management and patient services, and facilitate clearer industry standards for the commercial health insurance industry. Together, the commercial health insurance industry and the pharmaceutical industry can help build a more robust multilayered medical security system, which will increase patient access to affordable healthcare.

V. From Blueprint to Actions

Recommendations for Government

1. Encourage collaboration between commercial health insurers and BMI.
   - The government should define and codify, in high level policy, the scope of BMI within a multi-layered medical security system and specify where and how commercial health insurance can play a supplementary role.
   - The government should empower commercial health insurers to participate in operating BMI for the city/municipal government (a public-private partnership model) and contribute to the establishment of a new medical insurance governance landscape.

2. Promote the uptake of commercial health insurance and other forms of supplementary medical insurance.
   - The government should develop a tax preference for ‘employer health insurance reimbursement lists’, which covers drugs not included on the National Drug Reimbursement List.
   - Local governments should work with commercial health insurers to develop low-cost supplementary medical insurance products, tailored to the needs of their local populations. If provincial governments highlight lessons learned from municipal pilot projects on supplementary insurance, this could help drive codification of best practices which, in turn, could create provincial guidance to incentivize development of fit-for-purpose supplementary insurance at the municipal level.

3. Promote professionalism and business innovation through appropriate regulation.
   - The government should strengthen collaboration between the CBIRC, National Healthcare Security Administration (NHSA), and National Health Commission, and build a cross-agency regulatory team devoted to the commercial health insurance industry.
   - The CBIRC should improve information technology infrastructure and collaborate with the
NHSA to promote the proper release of basic medical insurance data and hospital medical data to commercial insurance companies. The government should formulate relevant industry standards and regulations to guide the use of this data.

- The government should promote regular engagement between relevant government agencies, academic research institutes and the private sector. These engagements could include formal academic seminars and industry forums dedicated to best practice sharing and idea generation to support the development of a multi-layered medical security system. This network could be jointly facilitated by the CBIRC and NHSA.

**Recommendations for Commercial Health Insurers**

4. **Prioritize the development of new and innovative health insurance products, with greater coverage and a long-term focus.**
   - Commercial health insurers should re-orient their product offering towards long-term medical insurance (i.e. expanding coverage beyond one year), specialized disease insurance and managed care plans.
   - Commercial health insurers should expand coverage to better meet stakeholders’ unique healthcare demands. For example, Alipay, an e-commerce and insurance platform, has recently included coverage of rare diseases in its “Mutual Aid Plan”. Another commercial health insurer now offers products specifically for migrant workers.

5. **Explore new collaboration models with the government.**
   - Commercial health insurers should pursue public-private partnerships with local governments. For example, drawing on its extensive experience in specialized disease insurance, Taikang Insurance Group is helping local governments to design a city/municipal-level supplementary medical insurance product tailored to the healthcare demands of the local population. A comparable international example to the public-private partnership model would be the U.S. Medicare Advantage Plan, under which the government delegates operational authority to commercial insurers.

6. **Explore healthcare service models of commercial health insurance by collaborating with both traditional and digital healthcare providers.**
   - Commercial health insurers should explore opportunities to collaborate with “internet hospitals” – whose services are now covered under BMI due to the Covid-19 pandemic – by offering services such as healthcare management.
   - Commercial health insurers should continue to explore collaboration with public healthcare institutions. For instance, using specialized disease insurance as an entry point, establish a stronger connection with patients via a managed care collaboration model with public healthcare institutions. This allows patients to receive not only treatment but also the care and management services.

7. **Partner with pharmaceutical companies to drive product and service innovation and promote**
an industry standard.

- Commercial health insurers should work with pharmaceutical companies to design specialized disease insurance and specialty drug insurance products, and city/municipal-level supplementary medical insurances. Pharmaceutical companies can share their experience in clinical data, physician networks, healthcare services and patient management systems to help drive product innovation. For instance, Sanofi helped extend coverage of Alipay’s Mutual Aid Plan by including five rare diseases into its Plan.

- Commercial health insurers should partner with pharmaceutical companies to pursue projects that support a broader, values-based ecosystem. For example, Sanofi has signed a strategic collaboration agreement with Ping An Insurance to jointly focus on chronic disease management, AI technology, medical big data and innovative commercial health insurances.

- Commercial health insurers should partner with top actuarial firms, reinsurance companies as well as pharmaceutical companies and pharmacy benefit manager to formulate important commercial health insurance industry standards, e.g. a reimbursement drug list. A communication channel needs to be established with key policy makers (including the CBIRC and NHSA) with assistance of relevant industry associations.