China’s Healthcare Landscape & Implications for Insurers

China’s healthcare landscape has changed tremendously since it announced the need to reform its healthcare system back in 2005, and there is no doubt that China has made significant progress in many aspects of public health. Yet, despite more than a decade of reform, China still faces various challenges in achieving its aim of equal access to public healthcare for all of its citizens. These challenges have driven the demand for private health insurance, as China’s population becomes older, sicker, more health conscious, and increasingly savvy about their spending.

At the same time, COVID-19 has placed significant short-term stress on China’s healthcare system and has accelerated the need for change and innovation. The government has become more open and transparent, and the need for a digital, patient-first, future has become apparent. On-going reform and headwinds faced by its economy are challenges that are rapidly changing China’s healthcare landscape. Nevertheless, China’s sheer size and relative robustness of its healthcare demand ensure that it remains a key geography for insurers looking for growth. Insurers that wish to capitalize on this opportunity should look to collaborate with government stakeholders, recognize the distinct characteristics of Chinese consumers, accelerate digital initiatives and embrace cross-functional collaboration in digital health. The scene is set for commercial health insurers to fill an ever-expanding gap in the market.

A Fragmented System

Hospitals in China are organized according to a 3-tier system that recognizes a hospital’s ability to provide medical care, medical education, and conduct medical research [Figure 1]. Based on this, hospitals are designated as Primary, Secondary, or Tertiary institutions. This tiered system has led to a healthcare landscape that is highly fragmented as there has been a concentration on building larger tertiary hospitals. In big cities, giant hospitals are equipped with some of the world’s best doctors and medical technology, while in the countryside, many people are left without the most basic medical care. Primary level hospitals have bed occupancy rates of 57%, while tertiary hospitals registered 98% in 2018.¹

Well-educated doctors all want to work in tertiary hospitals in large cities, where they can move up the career ladder by earning promotions in the state-run system. Because of that, China does not have enough general practitioners or family doctors. Patients, whether they have the common cold or a serious illness like cancer, flock to the giant hospitals for treatment, where they may wait for hours to be seen by a doctor who will spend just 5 minutes with them.² According to the World Health Organization, there is one general practitioner for every 6,666 people, compared with the international standard of one for every 1,500 to 2,000 people.³ The Republic of Korea, for example, has one general practitioner for every 1,576 people.⁴ Some top-ranked specialists in China see more than 100 patients a day at these mega-hospitals: scalpers acquire tickets online with fake identity cards and booking bots, while other patients try to pull strings to get an appointment.

Insufficient Insurance Coverage

Like many major countries in the world, the majority of people in China are part of a public insurance system that is inefficient. Almost all citizens (97%) are covered by state-run health insurance. But since the coverage doesn’t extend to many essential services, people still have to pay a large share of medical expenses from their own pockets and lack access to quality care. These consumers have grown frustrated with the difficulty of finding good doctors, long waits to see doctors, overreliance on IV therapy, and packed out hospitals. As a result, consumers are increasingly saying they would be willing to pay for private insurance if it provided something better.

In particular, there is dissatisfaction with reimbursement practices since about 50% of

FIGURE 1

<table>
<thead>
<tr>
<th>PRIMARY TIER</th>
<th>Typically a township hospital that contains less than 100 beds. They are tasked with providing preventative care, minimal health care and rehabilitation services.</th>
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<tbody>
<tr>
<td>SECONDARY TIER</td>
<td>Tend to be affiliated with a medium size city and contain more than 100 beds, but less than 500. Provides comprehensive health services, medical education and regional research.</td>
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<tr>
<td>TERTIARY TIER</td>
<td>Most comprehensive hospitals at the city, provincial or national level with a bed capacity exceeding 500. Responsible for providing specialist health services and perform a bigger role with regard to medical education and scientific research.</td>
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individual health care spending in China is out of pocket. This dissatisfaction has similarly led to an increase in demand for private insurance. Fastest growth is expected in reimbursement policies, which are more expensive but more flexible than the critical-illness policies that many Chinese have today. Chinese policymakers understand the limitations of social insurance and have taken steps to encourage consumers to embrace private offerings, such as tax breaks for individuals who buy private insurance.

Moreover, public healthcare has not been able to keep up with the increasing mobility of China’s middle class. Chinese citizens from some cities are subject to restrictions on reimbursement services for public health care taken in any city other than their hometown registrations (the hukou system). This means some citizens would have to return home for any health problem, adding to both inconvenience and cost. Commercial health insurance therefore has an important opportunity to offer coverage that enables the urban cohort to receive medical treatment wherever the illness or injury occurs.

This demand for private health insurance is compounded by the fact that Chinese consumers are getting older, sicker, more health conscious, and increasingly savvy about their spending.

An Aging Population

China’s aging population will put enormous pressure on social health and elderly care, requiring private disability insurance and long-term care insurance. The percentage of China’s population aged 65 and older has increased steadily year-on-year. By 2050, forecasts suggest that 23% of China’s population will be 65 and older, compared with 11.4% in 2017. This has led researchers to describe China’s challenge as “getting old before getting rich”. As the workforce gets smaller and less people pay insurance premiums, the social medical insurance system will face huge challenges. This population structure will create a strong demand for private disability insurance and long-term care insurance. Despite this, at present these segments only occupy a small share of the market. According to a survey by the China Development Research Foundation, far more people are willing to buy these types of insurance when compared with those that have actually purchased it. There is therefore huge potential to develop these nascent markets.

Increasing Chronic Disease

China has reached a health “tipping point” with chronic conditions having replaced infectious diseases as the leading causes of early deaths in the nation of 1.4 billion people in 2019. These chronic diseases accounted for more than 85% of total deaths in the country. A study by the Institute for Health Metrics and Evaluation stated that leading risk factors contributing to health conditions in China are high blood pressure, smoking, pollution, and dietary risks.

As urbanization increases, these factors will contribute to increased incidence of chronic disease and will trigger insurers to integrate chronic disease management into their offerings. An example of this is Ping An’s partnership with Sanofi, a French pharmaceutical multinational, which was intended to advance the awareness of chronic diseases and explore innovative approaches to prevention based services.

Increasingly Health Conscious

As a result of this increasing incidence of chronic disease, people have started to become more health conscious. According to McKinsey, as consumers strive to take care of themselves amid the stress, congestion, and pollution of urban living, they are expecting to increase their spending mainly on categories related to health and lifestyle. The explosion of gyms in China has been most impressive – a Euromonitor report found that in 2000 there were 500 gyms in China, and in 2019 this number sky-rocketed to 37,000. These healthy lifestyle aspirations have driven growth in demand for preventative healthcare products such as private medical insurance, regular health check-ups, lifestyle apps, and wearables; all of which are approaching levels of demand seen in Japan. Importantly, middle-class consumers are exercising more, with 68% of respondents saying that they were “exercising more, and regular exercise has become a part of their daily life”, according to a survey done by HKDTC.

A Growing Middle-Class That are Savvy About Their Spending

It is no secret that China’s middle class is experiencing exponential growth. McKinsey analysis indicates the Chinese middle class could reach 550 million in 2022 - more than one and a half times the entire US population today. With
increased income comes increased affordability and willingness to pay for more high-end products and services. Thus, it is no surprise that the unique needs of the middle class and affluent Chinese are not entirely met by the public health sector. These individuals are now demanding high quality and diversified commercial health insurance.

Increasingly, consumers say they would be willing to pay for private insurance if it provided something better. Ernst & Young found that the percentage of first-time buyers of commercial health insurance increases as income levels rise, suggesting that wealthier Chinese consumers are more willing to accept private commercial health insurance plans. Furthermore, concerns about illness remain the top reason for saving: in a survey by The Boston Consulting Group, 58% cited worries that a family member could fall ill as one of the top three reasons for saving.16

Even so, Chinese consumers are not immune to the realities of slower economic growth. In a survey on China’s middle class consumer preferences by McKinsey, a majority of respondents showed signs of greater caution in their spending. 60% said they weren’t interested in spending rashly, even if they felt “rich”, a jump from the 52% who said this in 2017.17 In fact, according to research conducted by Ernst & Young, Chinese consumers have been shown to be price-sensitive when it comes to commercial health insurance.18 They consider multiple cost factors when choosing their private health insurance plans, such as premium and discounts. Insurance companies, therefore, may do well to offer initial lower premiums to attract new customers, and then expand gradually.

Chinese consumers also rely heavily on interpersonal relationships when selecting private health insurance. The same survey by Ernst & Young found that more than half of respondents purchased commercial health insurance through acquaintances, a third through brokers or agents, and only a small proportion found the products online through computer or mobile devices themselves.19 Though most respondents know the products are available, they seek the advice of acquaintances, family, or brokers prior to purchase.

**Short-Term Effects of COVID-19**

The campaign to control, diagnose and treat the novel coronavirus has, unsurprisingly, taken a toll on China’s healthcare system. As resources are being diverted to fight the epidemic, regular medical services have practically crawled to a standstill.20 COVID-19 has exposed the cracks in healthcare systems all over the world, and China is no exception. Of the 203 community health centers in Wuhan, 199 were designated for COVID-19 screening and triage. However, only 10 were prepared to admit and treat patients with coronavirus symptoms, emphasizing a gap in institutional capabilities.21 The government will therefore have to accelerate its actions in improving the quality and availability of these smaller healthcare providers to level out the divergent system described above.

The government will likely institute sweeping reforms just as it did following SARS. These will be focused on access to high-quality care, cost management, product innovation and digitalization. Importantly, though the impact of coronavirus will be smaller than SARS as a percentage of China’s GDP, it will take a much larger toll on China’s economy in absolute terms. SARS reduced China’s GDP by approximately RMB 100 billion (1%), whereas the coronavirus could cost as much as RMB 500 billion (estimated as 0.2%-0.5%) [Figure 2]22. Thus, it is likely that the government will intensify cost and productivity efforts during the recovery.

**FIGURE 2**

<table>
<thead>
<tr>
<th>SARS</th>
<th>COVID-19</th>
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<tr>
<td>China represents 4% of global GDP</td>
<td>China represents 16% of global GDP</td>
</tr>
<tr>
<td>SARS causes 1% reduction, costing ¥100 bn</td>
<td>COVID-19 causes 0.2-0.5% reduction, costing ¥500 bn</td>
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With COVID-19, there will be significant implications for commercial health insurance. During the SARS outbreak, when uninsured citizens had to pay out-of-pocket for medical expenses, commercial health insurance experienced a short-term boom. It also led to some companies adding virus coverage to their offerings. There is no doubt that we will see similar effects in this period, with premium growth rates experiencing a short-term boom but eventually returning to normal.
Nevertheless, the crisis will have put private insurance top-of-mind for many people, exacerbated by the fact most people have limited existing coverage. Leading commercial insurers that wish to capitalize on this growing demand will harness existing hospital networks, digital capabilities and a wealth of analytics.

The virus has also had the effect of pushing the government to be more transparent and built the basis for more public-private partnerships in China. Social media such as WeChat and Weibo have played important roles in reflecting public opinion and prompting the government to respond accordingly. The government is now expected to be more open for collaboration, and businesses have begun to develop capabilities to contribute to more public goods. These changes imply multiple opportunities for industries, as new business models begin to emerge in the health sector. The value chain of healthcare will undoubtedly be extended to cover early detection and prevention, and future application scenarios will include more participants and promote a comprehensive ecosystem for public health agendas.

Most significantly, however, has been the effect of the virus accelerating technological disruption and digital innovation. Digitalization of China’s healthcare industry will need to rapidly advance in order to break down silos between hospitals and push the tiered system forward. Prior to the outbreak, digital adoption was low, with only 24% of Chinese respondents having ever used telemedicine, according to a Bain survey.23 Traditional behavior, however, has been reshaped. As a result of being quarantined at home, consumers are now embracing B2C delivery models for medicine. In fact, Bain found that coronavirus accelerated the growth of online Ping An’s Good Doctor medical platform, with new users increasing by 900% between December 2019 and January 2020.24 The coronavirus has put a glaring spotlight on the opportunities in digital.

A Digital, Patient-First Future

China’s healthcare system has traditionally been driven by a ‘face-to-face’ culture, but this is now changing. Over the past few years we have seen adoption of new technology ranging from mobile devices to innovative digital applications and tools. Patients in China spend about 29.3 hours online every week, with 26% of that time devoted to searches for medical information, according to the Social Media Trends Report 2017 by DXY Kantar. Doctors similarly spend 29.2 hours online weekly, dedicating more than half of that (53%) to medical-related activity.25 Companies in the healthcare sector therefore will need to get acquainted with China’s digitally savvy consumers and launch digitally innovative products and services.

Against this backdrop, various digital trends have emerged. Delivery systems have been transformed, with more efficient care delivery models emerging, such as virtual medical consultation. Ali Health, for example, entered a partnership with a big pharmaceutical company to offer vaccination consultation online, aiming to optimize patient support. ‘Miying’, an AI medical platform developed by Tencent, is a significant example of AI in the healthcare space. It has 6 AI-based products for the early screening of lung cancer, colorectal cancer, breast cancer, cervical cancer, esophageal cancer and diabetic retinopathy. Ping An has similarly been a perfect case study in digital evolution [Figure 3].26

FIGURE 3

Made customer experiences efficient, relevant, and unified

The insurer has worked continuously to improve its claim settlement efficiency.

They successfully managed to acquire users and convert them to customers by launching a “magic gate” portal to let customers access products and services from different departments and subsidiaries to save them the trouble of jumping from app to app.

Leveraged homegrown digital tech to achieve operational excellence

Ping An has 7 research institutes, 25 research labs, and more than 24,000 R&D staff members, with a main focus on emerging tech. They have invested in technology that allows them to automate processes to improve business value, e.g. voiceprint, NLP and speech analytics, micro-expression biometrics, etc.

Ping An Cloud is used to increase application security and agility and serves thousands of customers in healthcare industries.

Continuously innovated beyond existing business ecosystems

Customer journeys were redirected from traditional insurance towards a range of lifestyle needs such as housing, autos and health. They created OneConnect, which is Ping An’s fintech software-as-a-service and also the world’s largest cloud platform for insurance.

Their Good Doctor app provides healthcare services from online consultations to medicine order and delivery, linking 228 million users to 3,100 hospitals.
Over the next few years, there is no doubt we will see innovative leaps in big data, AI, and other technologies. Insurers that do not craft a strong digital strategy will lose out in both operational efficiency and customer acquisition.

**Next Steps for Insurers**

The healthcare landscape in China is shifting tremendously, and though many things remain uncertain, insurers will need to be able to adapt. We recommend four key actions:

1. **Collaborate with government stakeholders** - insurers should take advantage of the fact that they are currently operating against a backdrop of favorable government policies that support the privatization of insurance and health care, with likely tax breaks for private health insurance. They should also consider any opportunities to work with the government in efforts to transform the healthcare landscape from fragmented to connected.

2. **Recognize the distinct characteristics of Chinese consumers** - insurers should reflect this understanding in innovative products tailored for these segments, paying particular attention to the growing reimbursement market.

3. **Accelerate digital initiatives** - digitalization is the future, and the current pandemic is an opportunity to reshape and accelerate digital strategies.

4. **Embrace cross-functional collaboration in digital health** - form an internal system of collaboration by liaising closely with digital teams when planning launches. For example, an insurer can leverage data and service relationships to improve local patient outcomes.

Overall, insurers will need to size up the situation and act resolutely and quickly in order to capture current opportunities. The most significant gains are available to insurers that can win the trust of consumers, embrace the digital wave, and adapt to new arrangements in a dynamic environment.
Thank you.

We are looking forward to any feedback.

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