

The future of a new health insurance industry under Healthy China 2030

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With implementation measures for the National Health and Wellness Conference and the Healthy China 2030 initiative under discussion, 21 ministries and commissions on September 29 jointly released the 'Action Plan for Promoting the High Quality Development of the Healthcare Industry 2019-2022.' The plan promotes, in the development of health insurance products, the use of special needs medical services, innovative medical technologies and drugs and high-end medical devices, as well as health intervention procedures such as disease risk assessments, disease prevention and physical fitness activities. All of these new health service elements should be closely integrated into the healthcare industry.

1. Analysis of current issues in health insurance development

CURRENT STATUS OF HEALTH INSURANCE MARKET

Health insurance has been growing at high rates for years. The hopes are that health insurance will provide new engines of growth for both life and non-life insurance companies. An increasing number of companies are operating in the health insurance industry, resulting in fierce competition in a market that is widely recognised as 'hot.' However, despite the rapid

rise of health insurance within the insurance industry, the health insurance industry plays a relatively smaller role in the delivery of healthcare services. Healthcare providers regard private insurers as merely payers only. On the one hand, private health insurance accounts for only about 6% of health expenditures nationwide; on the other hand, the professional medical management capabilities of the insurance industry do not measure up despite the large size of the industry. As a result, there is a lack of will to go outside of comfort zones. Instead, the market promotes critical illness (CI) insurance. Medical insurance directly linked to the healthcare industry accounts for only one-third of private health insurance premiums,¹ exacerbating the detachment between private health insurance and healthcare services.

FIGURE 1: HEALTH INSURANCE PREMIUM INCOME FOR VARIOUS INSURANCE PRODUCTS (IN RMB BILLIONS)

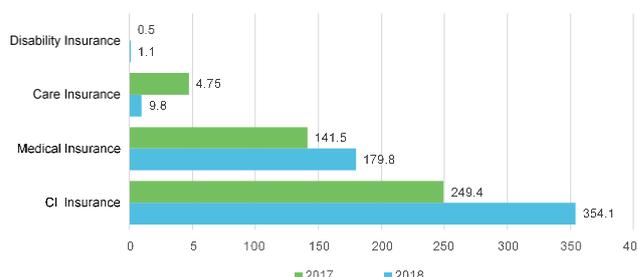
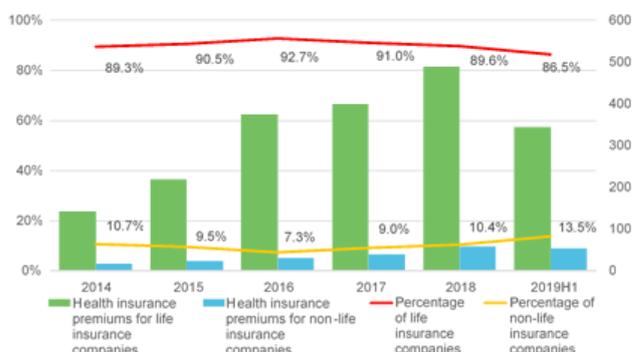


FIGURE 2: HEALTH INSURANCE PREMIUM INCOME FOR LIFE INSURANCE AND NON-LIFE INSURANCE COMPANIES (IN RMB BILLIONS)



¹ Excluding supplementary catastrophic medical coverage under SHI, which is managed by private insurers, it would be even lower for just private health insurance.

Insurance companies typically offer four types of health insurance products: CI, medical, care and disability income. CI and medical comprise two-thirds and one-third of health insurance premiums, respectively, with the other two accounting for extremely small amounts. CI insurance sales are enormous, and directly related to the current distribution model and the ecology of healthcare. Medical insurance needs to be tightly integrated into the healthcare ecology, but presents a significant difficulty when it comes to verifying treatment costs and managing healthcare providers. In CI insurance, the diagnosis is the trigger for giving a fixed benefit to the beneficiary. In this way it is comparatively independent of the ecology of the healthcare industry. The difficulty of management significantly drops, and with traditional sales agents compensated by commissions out of the high average premium of CI products, the sales model is practically the same as for life insurance. Most non-life and life insurers have not developed the professional medical management skills needed for medical insurance, and naturally tend to choose the relatively simple CI insurance as their initial foray into the business.

CURRENT FEATURES OF CI INSURANCE

From the perspective of risk, there has always been some disagreement in the industry about how CI insurance should be categorised. Internationally the emphasis has been on providing protection against CI, and it has only been recently that it has expanded to more moderate conditions. Some practitioners in the industry hold that CI insurance is essentially a special kind of term life insurance, as the risk characteristics and the existing management model are closer to those of life insurance.

From the perspective of the products, CI insurance features a fixed payment model and has played a critical role in various markets during their respective phases of development. Some markets have looked into having mandatory CI insurance in order to relieve the pressure on social insurance payouts.² The simplicity of the design, and the comparatively low degree of difficulty in the underwriting, claim handling and risk control, make it the main product option for providing a basic level of protection in some of our less developed areas, including the vast rural market.

In terms of role definition, CI insurance and insurers are in a position where they are more likely to bear financial risks that insured individuals or families are unwilling to. The focus of management is to pool as many individuals as possible with relatively homogeneous risk so that the centralised risk pool is stable and controllable while reducing costs and increasing efficiency. This provides maximum possible efficiency for the payer. It is not hard to imagine that, while CI insurance lowers the difficulty of healthcare management, it actually loses its engagement to the healthcare industry and voluntarily gives up the opportunity to connect with the players leading healthcare reforms. It is possible that private health insurance may gradually move away from the mainstream of the healthcare system and evolve into something outside of the healthcare system, where it acts purely as a recipient of the transfer of financial risk.

When it comes to operating results, though the difficulty of healthcare management is reduced, CI insurance loses opportunities to differentiate itself in the areas of health risk improvement, medical cost control and healthcare behaviour management. It is inevitable CI insurance will face greater competitive challenges going forward, and these challenges

are similar to those of the life insurance industry. The relatively homogeneous products compete on the fine print in policy coverage. The number of diseases that are covered continues to increase even as prices are stable or falling. Commissions remain at high levels and profit margins continue to shrink.

CURRENT FEATURES OF MEDICAL INSURANCE

For a long time there have been quite a few low-end and high-end products in the private medical insurance market,³ while offerings in the mid-market have been relatively limited. Low-end products dominate the medical insurance market, while the mid and high-end markets are limited in size. The main low-end medical products supplementary to social health insurance (SHI) are usually limited to what are covered under the SHI catalog, but they are supposed to be paid by the insured with a deductible or coinsurance. Policies consist mainly of group products. The value of insurance companies resides mostly in their risk pooling and in settlement of medical expenses. The market is very competitive, and usually has poor profitability.

During its early days the high-end market mainly served short-stay expatriates in China, with medical services provided mainly in the international departments of public hospitals as well as in private hospitals. Major treatments occurred more frequently in medical institutions outside of the country. Compensation was not limited to what was covered under the SHI catalog. Instead, all necessary and reasonable medical costs were covered. This made for more comprehensive protection, with the result that the corresponding average premium per policy was higher. It has mainly been sold by designated brokers, and the profitability is good, though profit margins have shrunk in recent years.

Mid-market products exist between the two extremes. All necessary and reasonable medical costs are covered, but medical demand is concentrated within China, with some private hospitals and the international departments in public hospital excluded. Traditional distribution channels are used for sales.

In 2016 a new class of products appeared with protection that was essentially an extension of mid-market products but with even higher limits. The introduction of a RMB 10,000 deductible reduced small claim payouts and claim-handling expenses. Consequently the average premium per policy has greatly reduced as well. This is the 'Million Medical' insurance, a product with a high limit and high deductible that has caused a stir in the market. As average premium per policy has fallen sharply, sales channels have expanded from the traditional offline outlets to an online presence, spurring the product's rapid growth. Within just three years since the first launch, there are now more than 30 products featuring Million Medical insurance being sold by non-life insurers. Premium income in 2018 is estimated to be over RMB 10 billion. Overall, profitability is not bad, but it needs to be monitored due to the decline in the effectiveness of underwriting, adverse selection spirals and medical inflation.⁴

² Geneva Association (19 March 2019). Healthcare in Emerging Markets: Exploring the Protection Gaps. Retrieved 4 December 2019 from <https://www.genevaassociation.org/research-topics/protection-gap/healthcare-emerging-markets-exploring-protection-gaps>.

³ Private medical insurance includes supplementary catastrophic medical insurance under SHI, managed by private insurers.

⁴ See <http://www.milliman.com/insight/2019/Evaluating-the-performance-of-medical-reimbursement-products/>.

The Million Medical insurance product is driving the development of medical insurance. It is relatively simple—the perceived value of customers is good, and a large number of employees in the insurance industry have spread the word about the product through online sales, swiftly raising public awareness. However, the role of insurers selling this type of product remains that of a recipient of the transfer of financial risk. Even so, it differs from other types of medical insurance in that the Million Medical insurance product only deals in the transfer of large medical expenses; small medical expense claims are borne by the insured. To a certain extent this will have an influence on how an insured will seek medical treatment, but there will be less impact on the healthcare provider and on the intervention of how the insured manages health risk.

NEED FOR NEW HEALTH INSURANCE IS URGENT

The role played by CI insurance makes it incompatible with private health insurance. The insurance company should not merely act as the recipient of the transfer of the health risk in a zero-sum game with the insured, but instead, insurers should be the party actively managing the health risk of the client. A new type of health insurance oriented towards managing chronic disease and preventing major illness would reduce economic and social costs. Medical insurance alters the role played by an insurance company from the efficient pooler of risk and payer to that of an active manager of health risk. In an effort to control medical costs, it can also improve the health of the entire population and enhance the patient experience when receiving healthcare services, which is actually more in line with what is proposed by the Healthy China 2030 initiative and the Action Plan for Promoting the High Quality Development of the Healthcare Industry.

As noted in a recent report released by a leading international insurance think tank, the Geneva Association,⁵ *this contribution will become even more attractive to the society as the role of private health insurers is shifting. They are evolving from payers of claims and benefits—as well as underwriting data collectors—to an expanded service proposition as providers of comprehensive healthcare advice and solutions.* Digital technology and advanced analytics are driving this trend. More generally, there is tremendous potential to address some of the biggest health challenges in emerging markets such as high costs, poor data and service quality, insufficient channels, and a lack of awareness etc.

At present the Chinese government is showing great determination to implement healthcare reforms involving changes to medical services and drug prices as part of the healthcare payment reform. Private health insurance can help alleviate the pain as the governmental reforms deal with issues such as reasonably reflecting the value of the role of the doctors and the proper choices of drugs. While SHI provides basic coverage, private health insurance provides efficiency. It not only serves to expand the coverage of basic medical services, but also allows for medical services and products to be commercialised.

2. Developing new health insurance

Advances in medical insurance have provided fresh challenges for product design, business models, information systems and management skills. The most pressing issue for the insurance industry at present is finding a way to operate true medical insurance and drive changes in organisational structures and

management skills, such that medical insurance can be separately operated from traditional life insurance.

ANALYSIS OF NEW HEALTH INSURANCE SUPPLY

There are mainly two categories of new products: those for managing chronic disease to prevent major illness, and those for the early screening, diagnosis and treatment of cancer.

1. Products for managing chronic conditions target chronic disease populations. Disease management is only possible when the insurance coverage period overlaps with the period of disease progress. In chronic disease insurance the patient is the insured with preexisting conditions, thereby combining the protection of a product featuring single disease coverage with the services found at the clinic of the specific disease. A fairly extensive medical background is needed for those engaging in the design and pricing of single disease insurance. Due to the higher value and increased frequency of contact with the health management services, a product like this will no longer be viewed as a pure insurance product. Instead, it will be seen as a comprehensive package of protection and services. The insured will be a member instead of a customer, resulting in a closer interaction between insured and insurer.
2. Products for the early screening, diagnosis and treatment of cancer will guide customers through the standard screening and treatment pathways, based on different limits for the pathways of different types of cancer. Long-term follow-up services will also improve five-year survival rates for cancer. This will maximise the insured's survival benefits as well as minimise irregularities and overtreatment to provide optimal oncological treatment solutions for the general population.

In terms of patient-centred health management services, there is a need to clearly define the health management services, the standards and the providers of these services. More importantly, the insurance industry is highly regulated, with clear rules and standards for policy endorsement, customer service and claims. However, the evaluation of health management services is soft and subjective. Service providers are usually partners, so the inputs and outputs of service standardisation are prerequisites for putting health management products into place. What is needed is a transformation from single products to a comprehensive platform used by both customers and the partners serving those customers. Specific details regarding financial accounting, endorsement and coordination between head offices and branch offices also need to be ironed out.

In terms of information systems, the support for pure insurance products needs to be expanded into support for an entire platform with dynamic monitoring of follow-up data associated with sales promotions, service usage settlements and medical construction. Every insured person will be a member obtaining services through a one-stop platform with a connection to or integration with the information systems of the service providers.

In general, the new health insurance *integrates digital technology into online and offline services* so that they link together seamlessly.

⁵ Geneva Association, op cit.

ANALYSIS OF NEW HEALTH INSURANCE DEMAND

Products need sales channels to achieve market coverage. The new health insurance needs to leverage its product attributes and value positioning in order to access the demand that the previous sales channels could not serve due to insufficient product supply, and to work together with those previous sales channels to achieve the initial stage of coverage. The new health insurance also needs to leverage the offerings of the health management services to find suitable entry points where they can establish and develop sales systems suited to promoting health management products, in order to achieve professional marketing, higher conversion ratios and lower sales costs.

We investigated market demand that hasn't been met in various existing sales channels and looked at the needs for new sales channels.

Unmet market demand based on current sales channels

Currently the main sales channels for insurance companies are individual sales, corporate sales and government sales.

Unmet demand in individual sales market

Many individual customers are denied coverage or have problematic test results from physical examinations when applying for traditional insurance products. Populations denied coverage could have policies tailored to their conditions, such as for diabetes or thyroid nodules. People with chronic conditions tend to fail physical examinations, for example due to having infectious hepatitis, high blood pressure, high blood sugar, high blood lipids, chronic obstructive pulmonary disease, kidney disease or other chronic conditions that may not have been properly monitored or controlled. Many chronic diseases are diagnosed for life, while patients in the preliminary stages of their conditions are not cognisant enough of the need to manage their health. It is difficult to make interventions in these cases due to the nature of the SHI system, though with private insurance the ability to deploy dedicated resources to different patient populations both online and offline provides for a significantly more effective means of intervention.

As secondary or even tertiary prevention, chronic disease management effectively improves patient health by reducing serious complications such as myocardial infarction, cerebral infarction, diabetic foot, diabetic eye disease, acute exacerbation of a condition requiring hospitalisation, end-stage renal disease (ESRD), liver cirrhosis and liver cancer. Private insurance has natural advantages as a payer when it comes to managing chronic conditions. For example, it applies process management to individual customers and pays for medical costs after disease diagnosis according to progression milestones, thereby providing an overall solution for patient groups with chronic diseases.

Unmet demand in corporate sales market

Corporate sales traditionally refers to employee benefit insurance or sales to individual employees made through trade unions or human resources departments. Employee expenditures by trade unions and human resources departments are mainly earmarked towards medical examinations and insurance, and they are roughly equally split. There is a sequence in this, with the medical examinations at the front end and the insurance at the back end; yet it is still fragmented, with firms contracted to conduct physical examinations on one hand and insurance companies on the

other, both having considerable sales teams operating independently of each other.

Demand for healthcare protection is strongest during the month when employee medical examinations take place. In this scenario, chronically ill individuals are given managed chronic disease health insurance, and individuals with cancer found through early screening are given health insurance for the early screening, diagnosis and treatment of their cancer. The strategic integration of insurance and physical examination products provides a more cost-effective solution for employee benefit insurance, thereby reducing corporate costs and improving employee health outcomes. Physical examinations (precision screening) can be driven by insurance procurement, or the new health insurance can be brokered by the agencies established by the firms contracted to conduct physical examinations.

For example, under the new health insurance, when suspicious indicators are discovered for an employee during precision screening, the claim pathway and service system based on the treatment pathway for the disease in question will serve to meet the demand for fast-tracked hospitalisation and claims for outpatient follow-up services and medical expenses. Employee sales channels can be used to reach extended populations needing chronic disease management and cancer screening, as the employee's parents and children will be covered under the new health insurance, given that they have the ability to pay and can exercise health management and supervision.

Unmet demand in government sales market

Chronic disease is not only something that private insurance rarely deals in, but it will also be a difficult burden for basic SHI in the future. This makes for an opportunity to form a bridge between SHI and private insurance. A multifaceted system of medical protection featuring a partnership between SHI bureaus and private insurers has often been a point of discussion among government ministries and commissions. A patient-centered collaboration would feature private insurance promoting the implementation of value-based medicine, in which doctors are responsible for healthcare services and SHI is responsible for payment.

Capitation payment per disease is a current trend of SHI. Private insurance should actively incorporate capitation payment per disease in order to jointly promote healthcare reforms. The value contribution of private insurance to SHI is in using its advantages of direct access to doctor-patient services and market-based payment methods as a way of establishing reasonable diagnoses, treatments and the ability to control fees that are expert consensus-based, in order to promote quantitative control over the fees in a capitation payment system under SHI. SHI and private insurance should join forces to promote effective expert consensus-based implementation through market-based incentives and online physicians and patient organisations. This would supplement SHI health management fees and payment gaps in copays while continuing to promote a wider range of healthcare services using capitation payment per disease, thereby helping to put healthcare reforms into place.

Using new health insurance for chronic disease management would help establish four key value points in a multifaceted system of protection:

1. **Stratified quality control:** Stratified quality control standards would be applied to the doctor-patient relationship by means of health management. They would be based on disease-based examination, medication use, the quantification of health management services and outcome criteria.
2. **Supplement of SHI payments that are made for drugs only:** At present SHI pays for drugs in the catalog but not for the health management services that play such an important role in health management. Health management fees charged by doctors need to be paid through private insurance in order for health management to work.
3. **A results-oriented fee-control mechanism for capitation payments** in which extra health management fees are paid to doctors based on outcomes. This would differ from traditional capitation payments where management outcomes are not accounted for. Expert consensus-based stratified quality control with results-oriented incentives would consist of a comprehensive rating that combines medical indicators with patient satisfaction, guiding doctors as they provide valuable health management services that can be quantitatively monitored.
4. **Payments for medications not listed in the national SHI drug list and the costs of treating severe complications of chronic illness or cancer.** A national listing of generic drugs would help expand drug options to a certain extent, and payments by private insurance for medications not listed in the SHI drug list would relieve discrepancies in this area. Buying cheaper policies either during chronic illness or when healthy would cover out-of-pocket expenses associated with serious complications or cancer, and would be conducive to alleviating payment pressure during the treatment period.

New sales channels tailored to new health insurance

New scenarios and channels for sales may emerge as insurance becomes a part of the healthcare industry. For example, single disease coverage based on drug efficacy could be available for centralised purchasing via drug companies. Other scenarios would include procurement through medical centers, human resources firms and insurance brokerage platforms. Drug company procurement is of strategic value to both sides of the equation. It would extend the value of doctor-patient online care, compliance management and real-world research. In a situation where a listing of generic drugs covered by SHI would put pressure on the costs of pharmaceutical marketing, brand-name drugs and innovative drugs with marketing expense to spend could create new products and promotional models, different from generics, by means of the integration of the new health insurance with peripheral doctor-patient services. Receiving private insurance payments for patients with targeted indications due to the expanded coverage of patients under private insurance would be a strategic adjustment for brand-name drugs and innovative drugs under the healthcare reforms.

3. Opportunities and resource support under new health insurance

SALES MANAGEMENT REQUIRES THAT PRODUCTS AND CHANNELS ARE ARRANGED INTO A THREE-DIMENSIONAL NETWORK

Traditional online and offline channels for insurance sales are relatively independent from each other, with some insurance companies deliberately maintaining the independence of their online channels to alleviate potential conflicts. Sales channels are vertically distributed, with exclusive insurance products serving specific channels.

The barriers between the online and offline world are becoming more difficult to maintain. Insurers find that conflicts between online and offline products and channels are inevitable and becoming more common. No amount of administrative intervention will prevent the eventual fusion of the online and the offline activities. Outside of the insurance industry, for example, internet companies are going offline while traditional enterprises are going online. Offline and online users are one and the same, and offline and online channels are integrated together to a great degree. This convergence requires a network of collaboration between products and channels, with coordinated service provided to customers based on the nature of the products.

The creative destruction in the industry will consist of the new health insurance using high-frequency health management services to drive low-frequency financial risk transfer protection. Platforms and high-frequency interactions will allow them to adhere to potential customers while building a foundation of trust among insurance consumers, making conversion easier on the platform when customers desire to have financial transfers. This is especially true when insurance groups invest in the medical, pension and healthcare industries. The synergistic transformation of industries within these groups will also be possible.

ORGANISATION SUPPORT REQUIRED BY NEW HEALTH INSURANCE

Medical insurance needs to infiltrate the healthcare industry, and health management services will be the most critical component of that. Just as pharmaceutical companies need multiple divisions to work together when developing a drug, the medical department would transmit information to the experts, the sales department would issue bills, and the market access department would lobby the SHI for payment. Similarly, the new health insurance would require the medical department to participate in product design and medical experts to participate in research, from the product design stage to organising and putting health management services into place. Authoritative and professional products and follow-up service programmes would need to be assessed, as well as medical feedback on project data. Sales departments would follow with billing, and then the SHI department would demonstrate the value of the product and the SHI payments through the individual account or payment reforms. The commercial department would then follow up with the coordination and quality control for the partners. This will be most challenging for the medical department. There generally isn't a true medical department within insurance companies, aside from the potential medical backgrounds of underwriting and claim departments.

When it comes to product design and management, the medical department would actively participate in the professional capabilities reflected in the new health insurance, in terms of product design but especially in promotions directed towards hospital doctors. The quality of the development of the new health insurance will be directly determined by how closely the medical department collaborates with experts and physicians. Specialists will need to be acknowledged when they move across the aisle to the insurance industry. Insurance companies will also need to provide a working environment and collaborative culture that will allow them to thrive.

At the level of marketing and sales promotion, traditional insurance sales personnel currently lack the necessary medical knowledge to be able to convey the advantages and value of the new health insurance. On the one hand, the spontaneous interaction of patients can be leveraged into word-of-mouth promotion, resulting in the spread of product information and sales activation; on the other hand, policies related to the current listing of generic drugs covered by SHI have led to a large number of medical representatives leaving the industry. This is the right time for building up a more effective sales force for the new health insurance.

THE NEW HEALTH INSURANCE WILL DRIVE DEMAND IN INSURTECH AND ONLINE MEDICAL TREATMENT

While the capital markets cool down, third-party administrators (TPAs) continue to gain capital's attention. TPAs are mostly used to improve underwriting and claim adjustment efficiency. There is not much technology-driven demand for underwriting and claim handling for CI insurance, but medical insurance, especially medical expense reimbursements for the new health insurance based on treatment pathways, urgently requires a technological intervention to improve claim-handling efficiency. The relationship between claim handling and the new health insurance will be mutually empowering. Medical insurance and TPAs can move forward together.

Due to the limitations of its product services and sales capabilities, the attempt over many years to seek profits from medical services over the internet has not been successful. Online medical treatment can be effective for providing medical services but it cannot improve the penetration of paid health management services. The new health insurance will work in tandem with online medical platforms to optimise their respective advantages, and online medical platforms will be committed to providing efficient health management services. The new health insurance will be used as a payer for health management services so that sales of health services and medical protection are integrated, resulting in a more valuable business income and profit model for online medical platforms.

LOOKING TO THE FUTURE

We are currently at an important historical juncture in the improvements to the service system promoted by China's healthcare reforms. Private health insurance needs to leverage its market-based advantages in order to help overcome the difficulties of the tripartite medical system reform. While the patient's interests are central to the undertaking, market-based measures should be used to smooth out the wrinkles in the links between the interests of the medical services system and the pharmaceutical companies. Private health insurance needs to actively participate in the construction of the healthcare system as it positions itself within the ecology of the healthcare industries and brings effective health management and promotion to the insured.

Things are often easy at the beginning, but determination is required to see them through to the end. It is our hope that the guidance of the Healthy China 2030 initiative and the Action Plan for Promoting the High Quality Development of the Healthcare Industry will spark the promotion of the new health insurance throughout society.



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