Entering China’s Private Health Insurance Market

**Highlights**

- **Shifting mindsets in how the Chinese view health insurance form the basis for healthcare plan reform.**
- **China’s consumers are increasingly willing to pay for private health insurance and, in turn, looking for access to better healthcare in the form of private hospitals and extended service offerings.**
- **Factors such as poor understanding of local consumer needs as well as poor distribution and data infrastructure are contributing to a market that overflows with undifferentiated products and potential for change.**
- **The winners in this market will be the ones who build relationships with the government and establish partnerships with hospital groups early on, as well as those who proactively explore new channels and ways of managing medical data.**

China’s rapidly developing healthcare sector tantalizes foreign investors with an opportunity to shape the future of the local healthcare system, hand in hand with regulators and hospitals alike.

According to the China Insurance Regulatory Commission, the health insurance market saw approximately 1.3 trillion RMB (or US $210 million) in premium revenue in 2014, compared with 1.02 trillion RMB (or US $167 million) just two years prior.

As the momentum of growth remains steady, the major players remain home-grown companies at the moment. In 2014, Ping’an Life and China Life accounted for approximately 40% of the health insurance premium market.¹

Thus far, none of the many multinational companies that have entered China have achieved large-scale operations with a comprehensive health insurance product line. Some foreign companies, however, are exploring broader offerings in order to expand their reach in China. The question becomes: what are the challenges and the opportunities at hand?

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**How the Private Insurance Sector is Positioned for Growth**

1. In the past 20 years, the disposable income of Chinese households has significantly increased. The urban middle class, which accounts for nearly 6% of urban households, boasts a monthly disposable income of RMB10,000-40,000. ² Members of this key group are most likely to purchase health insurance for both the elderly and the youth, both of whom are growing in number and expected together to comprise the vast majority of China’s population by 2020.

2. Per capita health expenditure similarly is on the rise. In 2006, this figure was less than RMB750; in 2011, it hovered above RMB1,800.³

3. Better healthcare is just becoming easier to access. Services such as green lane (or reduced waiting time to see doctors), direct billing and the provision of second opinion have grown both in prevalence and convenience.

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¹. China Insurance Yearbook 2014
². China Yearbook, PwC Analysis
³. China Statistical Yearbook 2012
**Where the Market is Headed**

A wider understanding and acceptance of health insurance is aided by regulatory advancements and supported by burgeoning consumer market share.

In the past 15 years or so, Chinese consumers have readily purchased life insurance, which they view as akin to a savings product. Such insurance has been marketed and popularized as whole-life endowments or annuities. A transition towards the purchase of health insurance sees more specialized options compared with life insurance. These include general health insurance, critical illness insurance, disability insurance and elderly insurance.

Meanwhile, the State Council has approved market-oriented reform of life insurance premium rates, which will first apply to traditional life insurance contracts.

In addition, the China Risk Oriented Solvency System (C-ROSS), which affects product development and pricing currently adopted by insurance companies, is gaining significant traction.

Together these advancements are ushering in a move from industry protection to rational market-oriented pricing methodology; and from administration intervention to risk-oriented regulation. Resultantly, the industry will produce an optimized product mix, while competitive advantages and social benefits will emerge.

**Emerging Consumer Demand**

The discerning Chinese consumer, with more and more disposable income on hand, is looking to enjoy more varied and better services. Consumers also are demonstrating a greater willingness to pay. And the good news is that healthcare is only becoming more accessible, particularly as more and more private hospitals are established.
Desire for Expanded Services

Direct billing and a more streamlined claims processes number among the services that are increasingly expected to be common across offerings from health insurance plans. Direct claim settlements at contracted hospitals, as opposed to traditional reimbursement claim procedures, are largely available to consumers only in tier 1 and tier 2 cities.

New entrants such as Alipay, in the future, may establish operations linked to insurers that would enable patients to access their medical history and prescriptions on a digital platform and obtain real-time medical expense reimbursement.

1. At this time, more pilot telemedicine programs are developing in five areas: Ningxia, Yunnan, Guizhou, Inner Mongolia and Tibet.

2. After the three-month pilot phase, and with 300 access points for remote consultation, a Guangdong hospital will now increase the number to 10,000 points by the end of 2015.

3. Zhongshan Hospital in Shanghai is partnering with UnionPay to implement the “Modern Hospital” program, which includes payment and reimbursement services.

Meanwhile, seeing the doctor can also be expedited by public hospital appointment registration systems and in particular, green lane access. Through the latter, critically ill patients as diagnosed by specialists at contracted hospitals can bypass long wait times.

Concierge services have also popularized. These span personalized medical guidance and health consulting. Similarly, the provision of a second opinion is also prized as a high value-added service, namely from another domestic or foreign expert.

A burgeoning desire for emergency assistance is also remarkable. Emergency rescue can span medical transfer, air travel arrangement, repatriation of mortal remains or ashes, and local cremation or local burial. The nature of these services requires a strong global network, and while emergency assistance is still mostly exclusive to tier 1 and tier 2 cities, it is becoming a priority for the Chinese consumer who travels regularly and especially internationally.

Willingness to Pay

The inclination of Chinese consumers and companies to buy health insurance is rising, across the board. One trend to take note of especially is that the middle-aged are more keen to purchase health insurance for their children and parents than for themselves.

Meanwhile, companies are also seeing that health benefits can both attract job seekers and retain employees. According the “Enterprise Health Management and Employee Mental Health Survey,” people looking for employment prioritize health benefits right after salary and career development considerations. Entrepreneurs and executive management also demand tailored services from private doctors.

Access to Private Hospitals

Private enterprises comprise a rising percentage of China’s outpatient centers although currently, just 12% of the country’s hospital beds are private. The numbers are poised to grow. In 2011, for instance, investors constructed 1,372 private health service facilities, raising the figure to 8,440. 4

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The Challenges with Private Insurance in China

Of the many multinational companies that have entered China, boasting of sophisticated health insurance expertise in mature markets, only some have filled attractive but limited niches here. What are the challenges of entering China’s private insurance market?

1. **Poor understanding of customer needs.** Most health insurance products provide a degree of financial protection for a limited number of diseases. This approach is problematic as it does not address a customer need for access to high-quality healthcare and complete, worry-free coverage.

2. **High-cost distribution models.** The majority of health insurance companies rely on large in-house sales forces or brokers as key distribution channels. Recruiting the right talent and bearing the cost of rapidly rising wages can be challenging. Meanwhile, insurers must pay a significant amount of commission to brokers.

3. **No standardized data and medical insurance expertise.** Lacking are a standardized data system, in conjunction with coherent medical records, which would enable companies to offer tailored insurance, manage risk in underwriting, conduct an informed claim and reimbursement process.

4. **Few incentives for service providers to cooperate.** Tier 3 — or the largest and most sophisticated—hospitals in China have little incentive to collaborate with insurers to optimize patient streams because they are already overrun with patients, and their revenues currently are mostly generated in a fee-for-service and from margins on prescribed drugs and procedures.

5. **Undifferentiated products.** When products are bundled into multiple arrays of different diseases and services, and coverage is subject to different caps, confusion ensues. In turn, competition becomes based on price and brokerage commissions, which eat into the profit margins of insurance providers.

6. **Lack of tax incentives.** China does not offer tax incentives that would encourage employers to buy what is now health insurance for their employees. This has impeded group health insurance from taking off on a large scale outside of multinational companies.
The Opportunities with Private Insurance in China

In light of new policies and market readiness, there are several entry pathways companies looking to enter the Chinese private health insurance sector can take.

1. **Build a relationship with the government.** Authorities have prioritized healthcare reform, and there is an opportunity to pursue development goals such as the implementation of preferential tax policies and simplified claims settlements. Companies would need to work with regulators to translate these goals into tangible improvements regulation-wise.

2. **Shape the rules of the game.** The central government has voiced an intention to magnify the role of private health insurance. Now is the time for proactive collaboration with regulators on national, provincial and city levels. Insurers can shape the future on topics ranging from the establishment of tax incentives to the removal of operational barriers that restrict insurers’ business models.

3. **Build a provider network to enable quality and access.** As public hospitals reform their payment systems, undergo hospital group restructuring and embark on public-private partnerships, they face added pressure to operate efficiently and manage medical expenses. They are also more receptive to collaborative efforts at this time, particularly those that offer added value by increasing patient streams or improving hospital management expertise.

4. **Get smart about medical data.** Data sets have not reached the standards of those available in developed markets. What insurers should do is to start interacting with the Ministry of Human Resources and Social Security or hospital management organizations.

5. **Explore new channels.** One of the most striking trends on China’s consumer landscape is the digital boom, with approximately 500 million people online. Through new digital distribution channels and mobile solutions, companies can overcome the disadvantages of using large in-house sales forces or brokers.

6. **Be a healthcare partner.** The government has lifted restrictions on foreign investment in health providers. Get creative in seeking new opportunities in the healthcare system, and this can mean government-level partnerships on data and claims management and electronic medical records — or in vertical integration as a healthcare provider, regional health systems manager or population-based disease manager.
For full details on how we can help, please visit www.pwccn.com

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