

The Research Report of China's Commercial Health Insurance Main Report¹

CDRF Research Group

I. Research Background and Significance

Health is central to the pursuit of comprehensive development of human beings. It is the foundation for economic and social development and an important symbol of national prosperity and strength. Health is also the common pursuit of all mankind. Since China started its economic reform, it has seen rapid development in its health sector, continuous improvement of its healthcare and health security systems and significant improvement of public health. Health security is the cornerstone of a country's healthcare system and has been a matter of great concern to the Chinese government and Chinese citizens. The "Healthy China" vision was first brought up at the 5th plenary session of the 18th CPC National Congress in October 2015. At the 2016 National Health Conference, Chinese President Xi Jinping stressed that people's wellbeing was impossible without good health and it's imperative to prioritize healthcare services. In the report to the 19th CPC National Congress, Xi remarked that "a healthy population is a symbol of national strength and prosperity," and "it's imperative to implement the Healthy China strategy" and "to refine the national health policy and provide comprehensive full-cycle healthcare services to the people."

¹ This report is co-authored by Qiu Yue and Guo Pei, with significant input from other members of the research group. CDRF Secretary General Lu Mai and Deputy Secretary General Fang Jin also offered valuable suggestions on the preparation and revision of the report. Our heartfelt thanks go to everyone who has contributed to the research project.

The abovementioned report also points out that the principal social contradiction facing us now is the contradiction between unbalanced and inadequate development and the people's ever-growing needs for a better life. In recent years, with socio-economic development, there is an increase in the demand for healthcare and health security and in the pressure to provide health security to the public.

On the one hand, due to the change in disease spectrum, population aging, the upgrading of income and consumption structures and the growing awareness of health, demand for health services and health security is increasing.

Chronic noncommunicable diseases are spreading at an alarming speed. It is estimated that, in the next two decades, the prevalence of chronic diseases will double or even triple among Chinese above the age of 40; the prevalence of diabetes will be the highest among chronic diseases; the prevalence of lung cancer will be five times the current prevalence². In 2012, the mortality rate of chronic diseases among the residents was 533/10 million, accounting for 86.6% of the total deaths. Cardiovascular diseases, cancer and chronic respiratory diseases were the main causes of death, accounting for 79.4% of the total deaths.³ The problem of population aging and the increase in the number of patients with chronic diseases have led to a significant increase in demand for health services and health security.

China's middle class is growing rapidly and the demand for better and diverse health care is increasing. According to *Blue Book of China's Society* released by the Chinese Academy of Social Sciences (CASS), the

² *Deepening Health Reform in China: building high-quality and value-based service delivery*. World Bank Group, World Health Organization, Ministry of Finance, National Health and Family Planning Commission, Ministry of Human Resources and Social Security. 2016.

³ Topic report of the task force, entitled "The Role and Development Model of China's Commercial Health Insurance".

middle-income class accounted for 37.4% of the total population in China. In the next few years, provided that the income distribution remains the same and household income continues to grow at a rate of 6.5%, the percentage of the middle-income class in China's total population will increase to 43% by 2020 and exceed 50% by 2025.⁴ With the increase of the middle-income class, more and more people are demanding differentiated, customized choices in addition to accessibility to health care. Outbound medical tourism has been growing in recent years. According to the 2016 Online Medical Tourism Report by Ctrip Tourism, the number of customers signing up for outbound medical tourism in 2016 was five times that in 2015 and the number of outbound medical trips is expected to exceed 500,000. And the per capita cost of outbound medical tourism is over RMB50,000, about 10 times that of ordinary outbound tourism. Besides, according to the Research Report on the Outbound Medical Tourism Market in China 2016⁵, as Chinese people care more about medical and healthcare services and travel more overseas, outbound medical tourism is gaining momentum and China will grow into a major source of tourists for global medical tourism. As the growing middle-income class are looking for alternatives to trade up, more and more are casting eyes on high-quality medical and healthcare services.

On the other hand, the new normal of China's economic development, the decline in the growth of total government revenue and the rapid increase in medical costs put the health security system and individuals under great pressure.

The growth rate in China's total health expenditure and government investment in the health sector has been maintained at a high level over a

⁴ *Blue Book of China's Society - 2017 Social Situation Report.*

⁵ *Analysys. Research Report on the Outbound Medical Tourism Market in China 2016.*

long period. Based on data from the National Health and Family Planning Commission (NHFPC), over the past 20 years, China's total health expenditure increased by 14 times from 220 billion yuan to 3.17 trillion yuan in 2013, faster than the OECD countries and other BRIC countries. In addition to the rapid growth of China's economy, the increase is largely attributable to a substantial increase in government health spending, including a large sum of subsidies for health insurance (Figure 1, Figure 2). According to the white paper entitled "The Right to Development: China's Philosophy, Practice and Contribution" published by the State Council Information Office at the end of 2016, the total health spending of the Chinese government in 2016 was 13,154 billion yuan, which was 4.1 times higher than that in 2008 (3,182.2 billion yuan) when China's healthcare reform started and increased by 10% as compared to that in 2015.

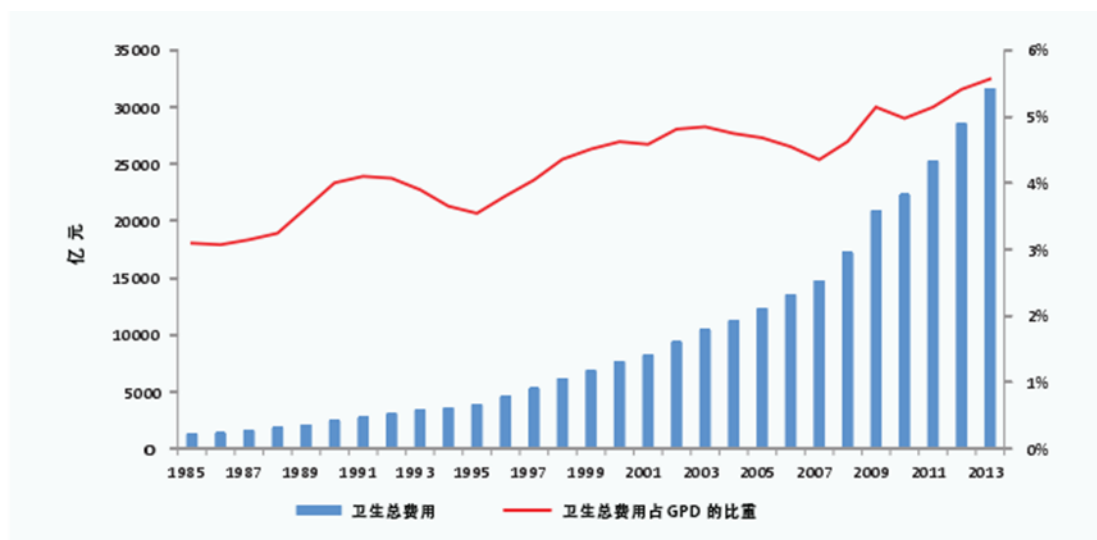


Figure 1 Total Health Expenditure in China

Source: Health Development Research Center, NHFPC, 2014.

亿元 100 million yuan 卫生总费用: Total health spending 卫生总费用占 GDP 的比重 Percentage of total

health spending in GDP

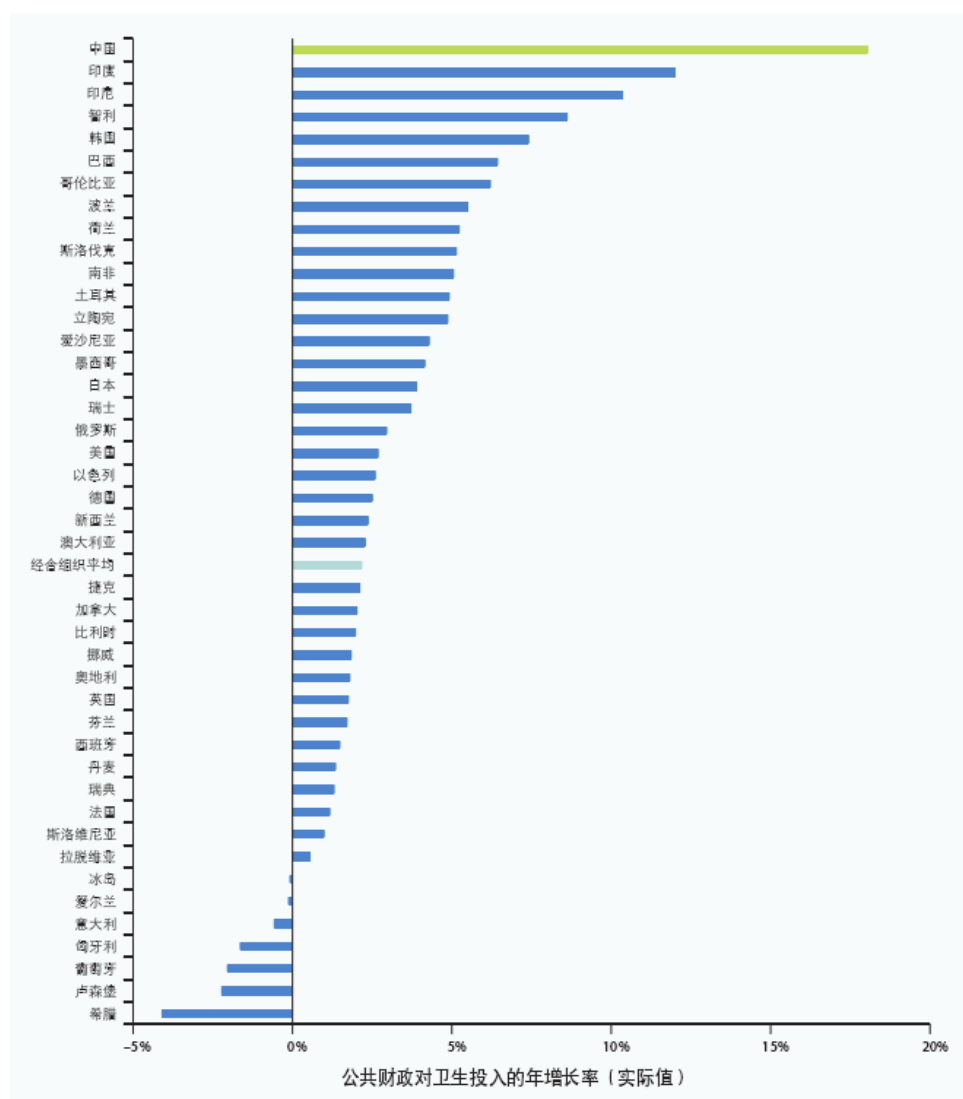


Figure 2 Annual Growth Rate of Government Spending in Health Care by Country

Source: OECD, 2015.

China India Indonesia Chile South Korea Brazil Columbia Poland Netherlands Slovakia
 South Africa Turkey Lithuania Estonia Mexico Japan Switzerland Russia U.S. Israel
 Germany New Zealand Australia OECD countries: average Czech Republic Canada Belgium
 Norway Austria UK Finland Spain Denmark Sweden France Slovenia Latvia Iceland
 Ireland Italy Hungary Portugal Luxembourg Greece

公共财政对卫生投入的年增长率（实际值） Annual growth rate of government spending in health care (actual value)

At the same time, since the starting of the new healthcare reform in

2009, the expenditure of China's health insurance funds has been increasing, which may lead to a payment crisis in the future. Most employee health insurance funds across the country will face a gap in the funding of payout obligations around 2020, and the total gap⁶ will reach 735.3 billion yuan by 2024.⁷ The increase in medical costs also places Chinese residents under heavy pressure. According to a nationwide home elderly care survey, among the expenses of the respondents and their spouses in ten major cities, medical spending, standing at 1,039.8 yuan per month and accounting for 1/4 of the total household expenditure, is the second largest expense, second only to the basic living expenditure.⁸

In general, with economic and social development, the change of disease model and the acceleration of population aging, problems causing by the rapid growth of health demand, the lack of service capacity of the social security system and limited financing are becoming more and more serious. In addition to providing public health insurance, diversifying commercial health insurance products and services are of great significance to meeting the growing, diversified and multi-level healthcare needs of Chinese residents.

The development of commercial health insurance is not only an important part of creating a multi-level health security system, but also an inherent element of the "Healthy China" strategy. Since the new healthcare reform was rolled out in 2009, the Chinese government has attached great importance to the development of commercial health insurance and issued a number of important policy documents to promote the development of commercial health insurance (see Table 1). In 2004,

⁶ *Blue Print and Policy Recommendations for the Development of Social Security in China in the 13th Five-Year Plan Period*, CASS, 2015.

⁷ Fang Pengqian, *2014 Report of the Development of the Healthcare Sector in China*, People's Publishing House, 2014.

⁸ *National Home Elderly Care Survey Report*, China Research Center on Aging, December 2014.

the *Opinions of the General Office of the State Council on Accelerating the Development of Commercial Health Insurance* outlined the goal to “increase the supply of commercial health insurance so that commercial health insurance can play its role in deepening the healthcare reform, driving the development of health services and promoting economic upgrading.” In 2015, the China Insurance Regulatory Commission (CIRC), the Ministry of Finance and other departments jointly issued the Notice on the Trial *Implementation of the Policy of Preferential Individual Income Tax Treatment for Premiums Paid for Commercial Health Insurance Products*, aiming at promoting the development of commercial health insurance via tax incentives. In the same year, the State Council issued *Opinions on Promoting the Development of Critical Illness Insurance Products Targeting Urban and Rural Residents*, aiming at encouraging commercial health insurance companies to offer critical illness insurance products to urban and rural residents. The *Outline of the Healthy China 2030 Plan* issued in 2016 set out the goal of creating a multi-level health security system with basic health insurance as the main component and other forms of supplementary health insurance and commercial health insurance as supporting components, encouraging companies and individuals participating in health insurance schemes and various supplementary schemes. It also set out the goal of “achieving further development of the modern commercial health insurance sector and significantly raising the percentage of payouts of commercial health insurance schemes in total health spending by 2020.” In 2017, the *Notice on the Nationwide Trial Implementation of the Policy of Preferential Individual Income Tax Treatment for Premiums Paid for Commercial Health Insurance Products* provided that, from July 1, 2017 onwards, the

policy of preferential individual income tax treatment for premiums paid for commercial health insurance products would be implemented on a nationwide scale.

Table 1 Summery of Commercial Health Insurance Policies
 Introduced in Recent Years

Year	Title of the document	Issuing authority	Policies related to commercial health insurance
September 2006	<i>Health Insurance Administration Measures</i>	CIRC	The first health insurance administration policy.
March 2009	Opinions for Deepening the Healthcare Reform	State Council	We should “encourage commercial insurance companies to develop diverse health insurance products to meet different needs ... and actively promote the health insurance management model under which the government procures health insurance services from qualified commercial insurance companies. ”
May 2009	<i>Opinions on the Further Participation of the Insurance Industry in the Healthcare Reform and the Construction of the Multi-level Health Security System</i>	CIRC	We should “vigorously promote the development of commercial health insurance to meet the diverse needs... encourage commercial insurers to actively participate in basic health insurance management ... and to actively explore different ways to participate in the construction of the healthcare system. ”
March 2012	<i>The Notice of the State Council on Issuing the Plan and Implementation Program for Deepening Healthcare Reform during the 12th Five-Year Plan Period</i>	State Council	We should “encourage commercial insurance companies to develop health insurance products other than basic health insurance products, including long-term care insurance and special illness insurance, to meet diverse healthcare needs” and “encourage enterprises and individuals to participate in commercial health insurance and various supplementary insurance schemes and implement preferential tax treatment and other related preferential policies...”
August 2012	<i>Advice for Promoting Urban and Rural Critical Illness Insurance</i>	National Development and Reform Commission (NDRC), Ministry of Health, Ministry of Finance, Ministry of Civil Affairs, Ministry of Civil Affairs and CIRC	The document provides that urban and rural critical illness insurance services should be “ purchased from commercial insurance companies ” and points out that insurance procurement and contract management should be standardized and sets out the basic participation criteria for commercial insurance companies.
September 2013	<i>Several Opinions of the State Council on Promoting the Development of the Healthcare Sector</i>	State Council	We should “encourage commercial insurance companies to invest in the healthcare sector by investing new projects and participating in restructuring, trusteeship, operation of companies established by the government, etc.” and “support the development of commercial health insurance products that are supplemental to basic medical insurance, encourage commercial health insurance companies to offer urban and rural critical illness insurance products, and expand the coverage of commercial health insurance...”

August 2014	<i>Opinions of the State Council on Accelerating the Development of the Modern Insurance Industry</i>	State Council	We should “encourage insurers to develop commercial health insurance products such as medical insurance, illness insurance and loss of income insurance to supplement basic health insurance” and “the government can entrust insurance companies to manage insurance funds or purchase insurance products and services directly from insurance companies.”
October 2014	<i>Opinions of the General Office of the State Council on Accelerating the Development of Commercial Health Insurance</i>	State Council	We should strive to “increase the supply of commercial health insurance... so that commercial health insurance can play its role in deepening the healthcare reform, driving the development of health services and promoting economic upgrading” and “encourage commercial insurance companies to manage urban and rural critical illness insurance funds and standardize relevant market activities ... and encourage commercial insurance companies to participate in the management of various health insurance funds.”
December 2015	<i>Notice on the Trial Implementation of the Policy of Preferential Individual Income Tax Treatment for Premiums Paid for Commercial Health Insurance Products</i>	Ministry of Finance, State Administration of Taxation and CIRC	The notice listed the pilot areas and set out regulations for commercial health insurance products and preferential individual income tax treatment and announced that the policy would come into force on January 1, 2016 in the pilot areas.
August 2016	<i>The Outline of the Healthy China 2030 Plan</i>	State Council	The document outlined the goal of “achieving further development of the modern commercial health insurance sector and significantly raising the percentage of payouts of commercial health insurance schemes in total health spending by 2020.”
December 2016	<i>Notice of the State Council on Issuing the Plan for Deepening Healthcare Reform during the 13th Five-Year Plan Period</i>	State Council	“We should allow commercial health insurance providers to play to their strengths in actuarial science, specialty services, risk management and other fields, encourage them to participate in the health insurance sector to diversify the competitive landscape... diversify health insurance products, vigorously develop consumer-driven health insurance...”
May 2017	<i>Opinions of the General Office of the State Council on Encouraging the Private Sector to Provide Multi-level and Diversified Healthcare Services</i>	State Council	We should “encourage commercial insurance companies to work together with health management facilities to develop health management insurance product and encourage commercial insurance companies and healthcare facilities to develop insurance products for special care, innovative therapies, advanced examination services, the use of high-value medical devices, etc.”
June 2017	<i>Notice on the Nationwide Trial Implementation of the Policy of Preferential Individual Income Tax Treatment for Premiums Paid for Commercial Health Insurance Products</i>	Ministry of Finance, State Administration of Taxation and CIRC	The Notice provided that, from July 1, 2017 onwards, the policy of preferential individual income tax treatment for premiums paid for commercial health insurance products would be implemented on a nationwide scale.

It was in such context that the CDRF created a task force in 2016 to study commercial health insurance in China. Over the past one and a half years, the task force conducted an in-depth study on the relationship between supply, demand, positioning, development and supervision of commercial health insurance and comprehensive healthcare reform. In the study, the task force drew on the extensive experience of Chinese and international experts and collected an abundance of large primary data via a large-scale survey on the demand of urban and rural residents for commercial health insurance products (about 20,000 samples, covering three municipalities directly under the central government and 43 cities/districts)⁹.

As the main report of this study, this report reviews the achievements and major challenges of China in the development of commercial health insurance and takes a look at the future trend and key areas of development based the results of the monographic study and field research. We hope that this study will provide scientific and valuable information to assist policy-makers in making evidence-based decisions to promote the development of commercial health insurance, improve the health security system, and achieve the goal of Healthy China and so on.

II. Achievements Made by China in Promoting the Development of Commercial Health Insurance

Driven by government policies and diverse health needs, China's

⁹ This survey was entrusted to the Opinion Poll Center of the National Bureau of Statistics of China. It was conducted during June-July 2017. The respondents were 18-75 years old, living in the surveyed area for more than six months. The survey was designed to collect information on the demographic characteristics, social security participation and opinions about social security, commercial health insurance purchase, opinions about and future demand for commercial health insurance, and other information of the respondents. Based on data analysis results of the survey, CDRF completed the *The Survey Report on the Demand of Commercial Health Insurance in China*, referred as "CDRF survey report" in the Main Report.

commercial health insurance industry has developed rapidly. Since we enter the 12th Five-Year Plan Period, the comprehensive strength of China's health insurance industry has increased significantly. The health insurance industry is the fastest growing industry in the insurance sector.

First of all, let's take a look at the supply side and the level of health security. The latest data show that premiums of commercial health insurance in China grew from 57.4 billion yuan in 2009 to 403.4 billion in 2016 at an average annual growth rate of 27.6%, which was much higher than the annual growth rate of life insurance in the same period. The percentage of health insurance premiums in personal insurance premiums increased from 6.95% to 18.2%; the total amount of health insurance payouts increased by 3.6 times from 21.7 billion yuan to 100.075 billion yuan. In the meanwhile, insurance density¹⁰ of health insurance increased from 43 yuan in 2009 to 292 yuan in 2016; health penetration¹¹ (i.e., the percentage of health insurance premiums in GDP) increased from 0.16% in 2009 to 0.54% in 2016 (see Figure 3, Figure 4 and Figure 5)

¹⁰ Insurance density refers to the ratio of premium to local population (per capita premium), reflecting the level of participation in insurance schemes.

¹¹ Insurance penetration refers to the ratio of total insurance premiums to gross domestic product (GDP), reflecting the status of the insurance industry in the entire national economy.

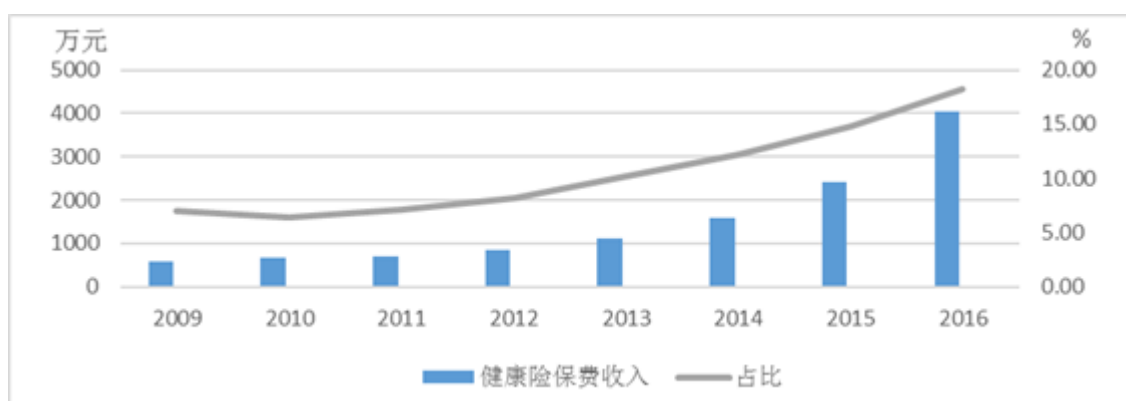


Figure 3 Health Insurance Premiums and the Percentage of Health Insurance Premiums in Life Insurance Premiums

万元 10,000 yuan 健康保费收入 Health insurance premiums 占比 Percentage of health insurance premiums in personal insurance premiums

Source: Topic report of the task force, entitled “A Study of the Supply of Commercial Health Insurance Products”.

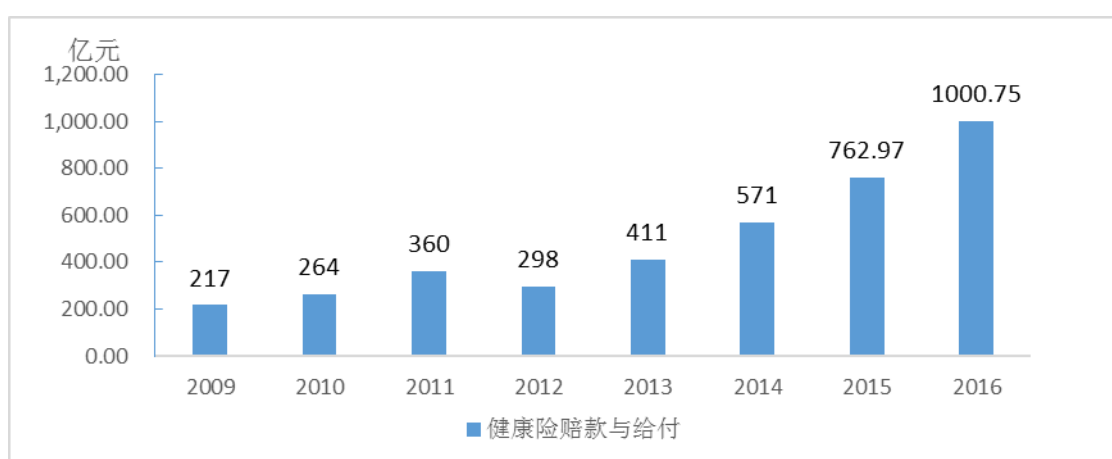


Figure 4 Health Insurance Payouts

Source: Topic report of the task force, entitled “A Study of the Supply of Commercial Health Insurance Products”.

亿元 100 million yuan 健康险赔付与给付 Health insurance payouts

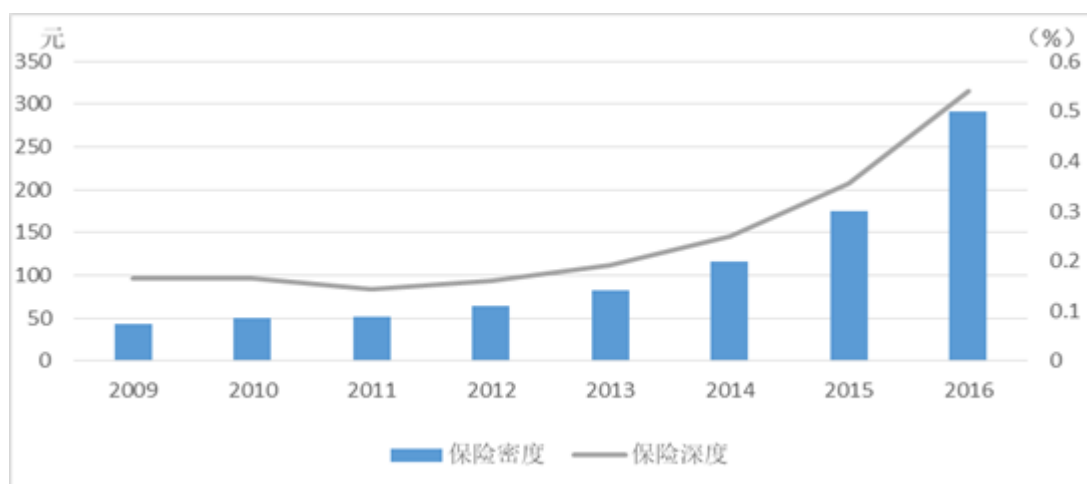


Figure 5 Density and Penetration of Health Insurance

Source: Topic report of the task force, entitled “Supply of Commercial Health Insurance Products”.

保险密度 Insurance density 保险深度 Insurance penetration

Secondly, commercial health insurance companies have actively offer urban and rural critical illness insurance products. As of the end of 2016, 16 insurance companies have entered into contracts with governments of 31 provinces and autonomous regions to offer critical illness insurance products to 1.05 billion urban and rural residents. In 2016, the reimbursement of medical expenses of critical illness increased by 13.16 percentage points on average. These products have significantly reduced medical expenses of patients with critical illness in urban and rural areas. The largest reimbursement was 1,116,000 yuan.

Thirdly, commercial health insurance companies have actively offered various health insurance services and participated in the construction of China’s health security system. From 2010 to the end of September 2015, the insurance sector has been entrusted to manage 866 billion yuan worth of health insurance funds and paid out 550 billion yuan benefits; commercial health insurance premiums reached 71.1 billion yuan premiums; commercial health insurers paid out 57.5 billion

yuan benefits and served more than 300 million customers. In the meanwhile, commercial health insurance companies have been exploring ways to manage health insurance funds and developed a number of unique models and accumulated extensive experience. Such models include the entrusted management model as adopted in Luoyang, Henan Province (Luoyang Model) and Jiangyin, Jiangsu Province (Jiangyin Model), the insurance contract model as adopted in Jiande City, Zhejiang Province and the public-private partnership model adopted in Pinggu District, Beijing (Pinggu Model).

Furthermore, commercial health insurance companies have been actively exploring new ways to participate in the healthcare reform and invest in public medical facilities. They have played a critical role in strengthening the regulation of the healthcare sector and cutting medical expenses.

III. Major Challenges Faced by China's Commercial Health Insurance Sector

Despite rapid development, China's commercial health insurance industry remains in its infancy. The lack of effective supply, inefficient demand delivery and the backward regulatory system are major problems faced by China's commercial health insurance industry. To be more specific, major challenges faced by China's commercial health insurance industry can be divided into the following four categories: (1) insufficient effective supply, small product variety, insufficient security and health service, and the lack of specialized management; (2) inefficient demand delivery despite the huge potential demand and

ineffective demand-oriented policy support; (3) failure of the commercial health insurance industry to play its due role in the healthcare reform; and (4) inefficient and backward regulatory system and the lack of supporting policies.

(1) Insufficient effective supply, small product variety, insufficient security and health service, and the lack of specialized management

In recent years, China's commercial health insurance industry and the number of market players in the industry have grown rapidly. Health insurance services and products¹² are becoming increasingly diverse. However, problems caused by the lack of effective supply and the growing demand in the market are becoming more and more serious. The following are five major supply-side problems faced by China's commercial health insurance industry:

First, insufficient supply and low insurance density and penetration. Insurance density and insurance penetration are indicators used to measure the level of development of an insurance market. They reflect the status of the insurance industry in an economy and how much each of the residents in a geographic area spends on insurance in terms of premium. During 2009-2016, both the density and penetration of commercial health insurance rose slowly. In 2016, per capita commercial health insurance premiums were about 292 yuan and the premiums of

¹² In the narrow sense, the supply of commercial health insurance refers to the supply of commercial health insurance products by commercial health insurance companies. Broadly speaking, the supply of commercial health insurance includes not only the supply of products, but also the participation of commercial health insurance companies in the construction of the health security system, the healthcare system and so on. The supply of commercial health insurance in the main report mainly refers to the supply of commercial health insurance products, including general medical insurance, critical illness insurance, long-term care insurance as well as the supply of relevant value-added services.

health insurance accounted for 0.54% of GDP, while per capita commercial health insurance premiums in the United States and Germany in 2013 were 16,800 yuan and 3,071 yuan, respectively¹³. Compared with property insurance, personal insurance, life insurance, accident insurance and other insurance products, the market share of health insurance was small. The percentage of health insurance premiums in personal insurance premiums in China increased from 6.95% in 2009 to 18.2% in 2016, much lower than that in a mature insurance market where this ratio stood at about 30%.¹⁴

Second, the variety of commercial health insurance products in the Chinese market is small. On the one hand, specified disease insurance and hospitalization insurance products occupy a dominant position in the market, and the supply of care insurance and disability income insurance is seriously inadequate. According to data, in 2015, premiums of specified disease insurance stood at 114.121 billion yuan, accounting for 47.34% of the total premiums of commercial health insurance; hospitalization insurance accounted for 36.11%; care insurance accounted for 16.42%; and disability income insurance accounted for only 0.13%¹⁵. Among them, despite the large market share (36.11%) of hospitalization insurance, many features of hospitalization products are similar to basic health insurance plans. Products that are truly supplemental to basic health insurance are very rare. The results of the CDRF survey show similar pattern in the commercial health insurance products purchased by the respondents, among which critical illness insurance products

¹³ Source: Topic report of the task force, entitled “The Role and Development Model of China’s Commercial Health Insurance”.

¹⁴ Li Jun, A Study of Policies of Preferential Taxation Treatment for Premiums Paid for Commercial Health Insurance in China. *Labor Security*, August 2011.

¹⁵ Topic report of the task force, entitled “The Role and Development Model of China’s Commercial Health Insurance”.

accounted for the largest proportion while disability income insurance and care insurance products were rare (Figure 6).

On the other hand, China’s commercial health insurance products often have features of life insurance. To be more specific, most commercial health insurance products are savings-based and have financial management features. Their design usually focuses on dividends and premium return and includes features of life insurance and accident insurance. In respect of sale channels, health insurance products are often sold in the form of add-ons or bundled with other insurance products. Thus, the development of health insurance is subject to the design of the main insurance products. The security provided by health insurance products is very limited.

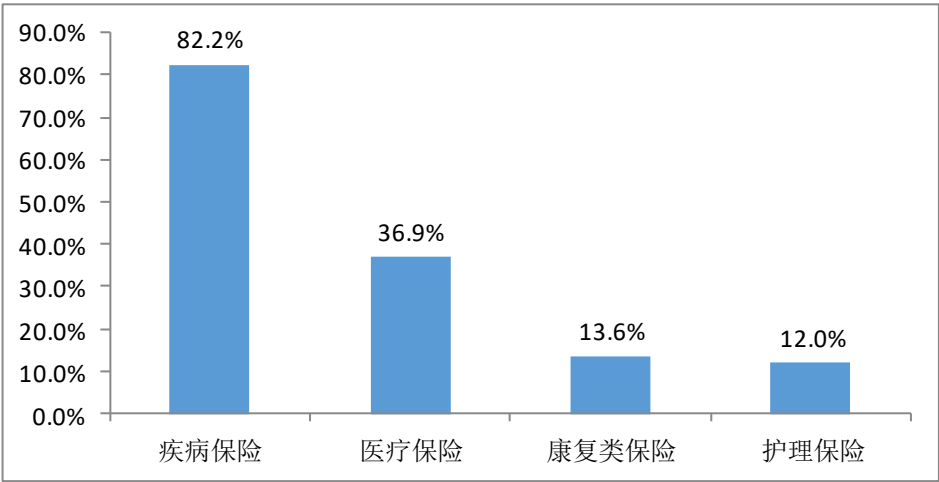
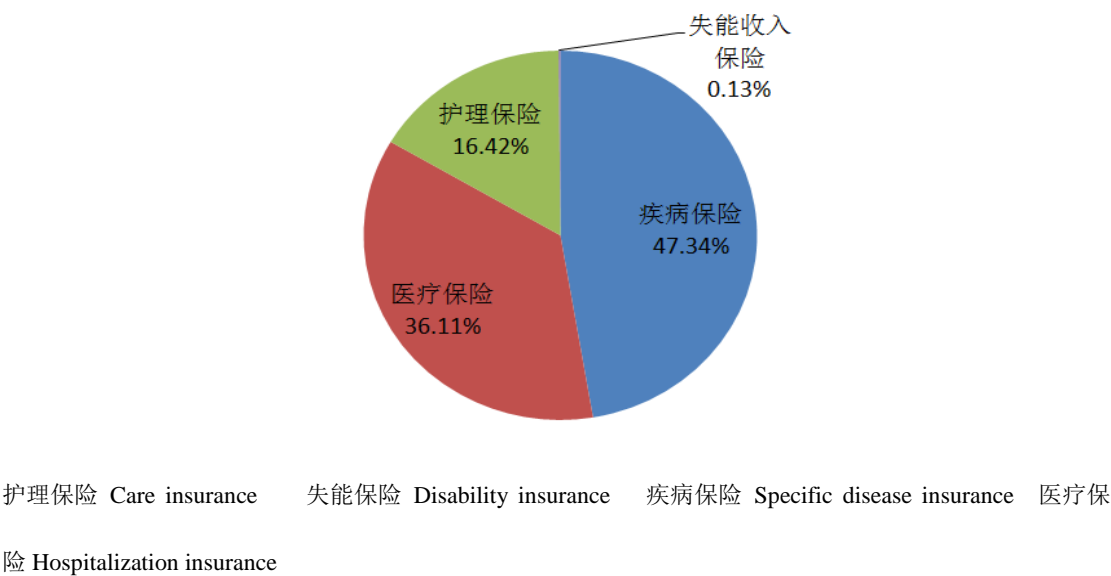


Figure 6 Types and Proportions of Health Insurance

Purchased by the Respondents

Source: CDRF survey report, entitled “The Survey Report on the Demand of Commercial Health Insurance in China”.

疾病保险 Specific disease insurance 医疗保险 Hospitalization insurance 康复类保险 Rehabilitation insurance 护理保险 Care insurance

Third, the level of protection offered by commercial health insurance products is limited. Data show that payouts of health insurance accounted for only 1.93% of national health spending in China in 2015, while this figure was more than 10 % in Germany, Canada, France and other developed countries and 37% in the U.S. In 2015, payouts of commercial health insurance accounted for only 6.27% of personal health spending in China. As can be seen from the above, the protection provided by commercial health insurance is very limited. (Figure 7).

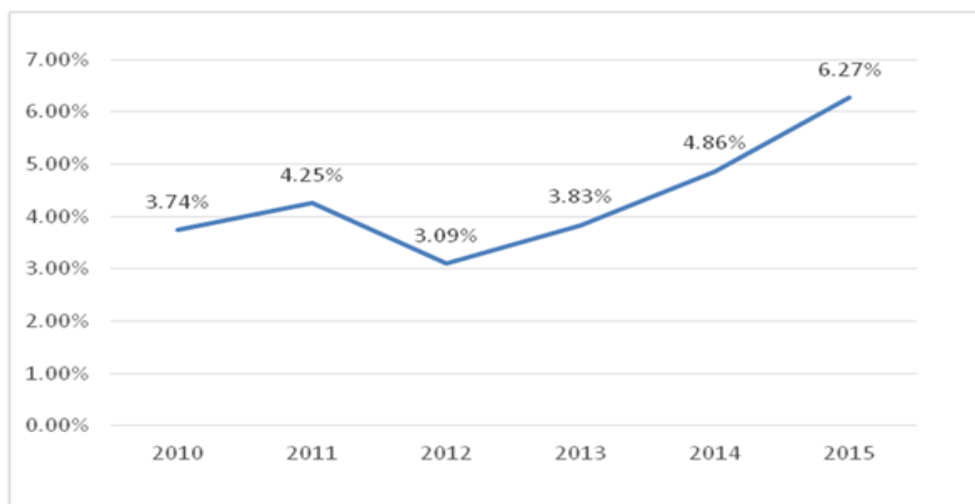


Figure 7 Payouts of Health Insurance Schemes during 2010-2015 (Expressed as Percentage of Personal Health Spending)

Source: Prepared based on data from *Yearbook of China's Insurance* (2001-2016)

Fourth, a whole-process service model has not yet been established and the alignment of products and health services is inadequate. At present, the variety of commercial health insurance products in China remains small. Health insurance products covering health management services is very rare. The industry still can't meet diverse needs of Chinese residents for differentiated health insurance products. The results of the CDRF survey show that 23.9% of the respondents thought that “the lack of appropriate health management and health services” was one of the top three problems faced by the commercial health insurance industry at present. In the meantime, health management services have a significant impact on purchase decisions related to commercial health insurance products. The results of the CDRF survey show that the top three items of value-added services that affect the respondents' decision to purchase health insurance products are physical examination (41.6%), public hospital appointment booking (35.3%) and health management services (31.8%). Regional analysis shows that the demand for health management services in developed areas is relatively higher than that in less developed areas. The demand of urban residents for value-added services of health insurance is higher than that of rural residents. In addition, as income grows, the demand of the respondents for public hospital appointment booking and overseas hospitalization is increasing.

Fifth, the number of companies specializing in providing health insurance products is small. In respect of market players, the health insurance market is dominated by life insurance companies and property

insurance companies. The market share of health insurance companies specializing in providing health insurance products is small. There are more than 100 insurance companies qualified for offering commercial health insurance products in China, but only eight of them are companies specializing in health insurance. They are still in the exploratory stage and facing many operational challenges. In addition, because most health insurance products are offered as add-ons of life insurance plans, health insurance companies often integrate some features of life insurance products into the design of their own products and copy the business philosophy and model of operation of life insurance companies. In fact, there is a significant difference between health insurance and life insurance in product design, actuarial pricing, protection functions, risk prevention, claim review, payment of benefits, etc. The business of a health insurance company is affected by many stakeholders, including the insured, healthcare facilities and health insurance authority and other stakeholders. Health insurance companies are facing information asymmetry, adverse selection, moral hazard, changes in healthcare policies and other risks. At present, Chinese insurance companies lack a clear understanding of specialized health insurance operations and specialized business models.

(2) Inefficient demand delivery despite the huge potential demand and ineffective demand-oriented policy support

As the comprehensive healthcare reform deepens, Chinese residents start to pay more attention to their own health risks and the role played by commercial health insurance in meeting the diverse needs of Chinese residents becomes increasingly important, but the current demand in

China's commercial health insurance market remains far smaller than the potential demand. The results of the CDRF survey show that only 26.2% of the respondents had purchased health insurance and 41.3% of the respondents were willing to commercial health insurance products in the next year, reflecting a huge gap between effective demand and potential demand. There are four reasons behind the failure of China's commercial health insurance industry to transform the potential demand of Chinese residents into effective demand.

First of all, basic medical insurance programs are extending the coverage and increasing benefits. The academia is debating about their relationship with commercial insurance. Some say that they may squeeze out some commercial health insurance products. Given fixed social demands, the increasing supply of basic medical insurance will reduce the demand for commercial health insurance. But some argue that the two can supplement to and reinforce each other. Since the 18th CPC National Congress, the Chinese government has been striving to build a social security system that “covers all people, meet people's basic demands, and is multi-tiered and sustainable.” While social medical insurance emphasizes its full coverage and basic benefits, commercial health insurance highlights its tiered, flexible services, which can make up for the shortage of the former. Meanwhile, the promotion of social medical insurance will raise the public awareness of risk and insurance and thus increase the demand for commercial health insurance.

Secondly, commercial health insurance products on the market are seriously homogeneous and the protection offered by commercial health insurance products often overlaps with that of basic health insurance. The market lacks differentiated products tailored to meet the diverse needs of

residents. The results of the CDRF survey show that 13.1% of the respondents who had bought health insurance products believed that the protection offered by commercial health insurance products “overlapped with basic health insurance programs.” Basic health insurance programs protect residents from basic medical costs, while commercial health insurance products should be tailored to meet different needs of different groups. However, the current commercial health insurance industry is unable to meet the demand for personalized, diversified health insurance products. Products such as loss of income insurance and long-term care insurance remain in their infancy and lacks variety. Long-term care insurance products on the market are similar to annuities and fail to offer adequate protection.

On top of that, the lack of health risk awareness and the lack of ability to purchase insurance also affect the transformation of potential demand into effective demand. The results of the CDRF survey show the percentage of people who had purchased health insurance products varies significantly across groups of different education levels. The percentage of people who had purchased health insurance products and the level of education were positively correlated. Higher education means higher purchase rate. 39.0% of the respondents who had completed a master’s or higher degree had purchased health insurance products, while only 10.4% of the respondents who had completed primary or lower education had purchased health insurance products, which was the lowest among all groups divided by level of education. Another factor that affect the demand for commercial health insurance is the disposable income of residents. ¹⁶In 2016, China’s annual per capita disposable personal

¹⁶ Topic report2, entitled “*The Demand Research of Commercial Health Insurance*”.

income was 23,821 yuan, representing an increase of 6.3% over 2015. In the same year, China's GDP and medical expenses grew by 6.7% and 12.3%, respectively, over 2015. The growth rate of per capita disposable income of residents was much lower than the growth rate of medical expenses and the GDP growth rate. A lack of purchasing power of consumers is one of the reasons behind the failure of the industry to transform potential demand into effective demand. The results of the CDRF survey show that the percentage of respondents who had purchased health insurance products increased with the level of income. The groups with an annual income of 250,000-500,000 yuan and higher had the highest percentage (49.5% and 49.0%, respectively) while the group with an annual income lower than 10,000 yuan had the lowest percentage (14.2%) (Figure 8).

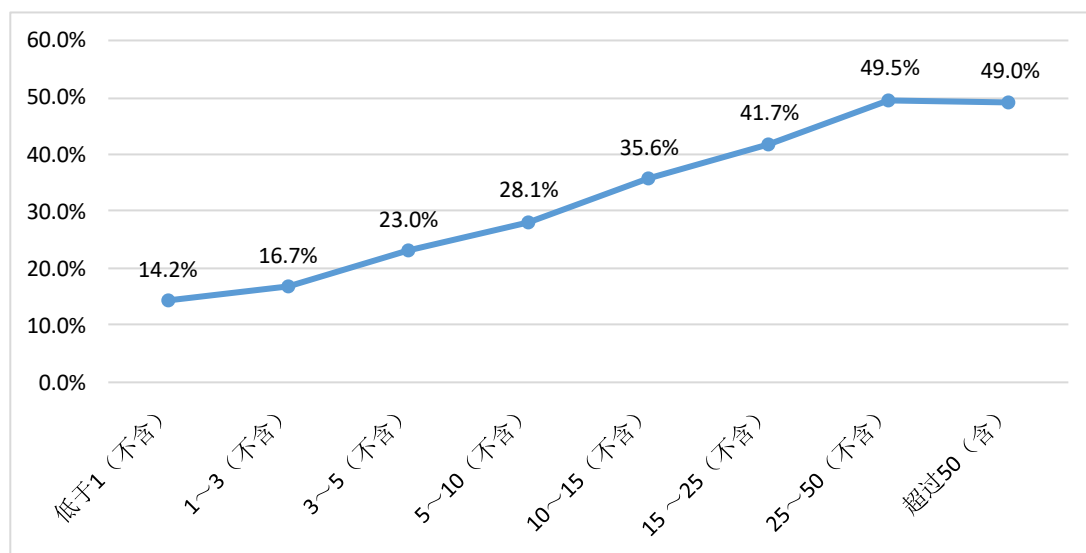


Figure 8 Percentage of Respondents Who Had Purchased Health Insurance by Level of Family Income (×10,000 yuan)

Source: CDRF survey report, entitled “The Survey Report on the Demand of Commercial Health Insurance in China”.

低于 1（不含） Below 1（excluded） （不含）（excluded） 超过 50（含） Above 50（included）

Last but not least, the support from demand-oriented policies is ineffective. The most obvious problem is that tax cut provided by the policy is too small to attract customers. In January 2016, the CIRC formally issued the *Notice on the Relevant Matters Concerning the Development of Health Insurance Products that Enjoy Preferential Individual Income Tax Treatment*. By the end of 2016, 13 insurance companies had engaged in the provision of health insurance products qualified for preferential individual income tax treatment in 31 provinces and cities and signed 54,370 qualified policies which brought them 92 million yuan premium income. In respect of protection, insurance companies received 506 claims in 2016 from 401 customers who had purchased health insurance products qualified for preferential individual income tax treatment and paid 2.02 million yuan benefits in total (5,054 yuan per person).

The results of the CDRF survey show that only 16% of the respondents were aware of this preferential tax incentive. In fact, many people believe this policy is less effective than expected. It faces the following three main problems: First, tax cut is too small. The policy provides that individuals shall be allowed to claim up to 2,400 yuan per annum as IIT deductions in respect of premiums paid for qualified commercial health insurance products, that is, the IIT threshold of such individuals will be raised by 200 yuan per month. The specific amount of IIT deduction is linked to the income of individuals. Each individual is allowed to claim of IT deductions up to 72-1,080 yuan per annum. However, in reality, there are 28 million individual income tax payers in China, accounting for less than 2% of the total population. On top of that,

taxpayers who pay IIT at a tax rate of 10% or lower rate account for more than 80% of the IIT taxpayers. Most taxpayers are only allowed to claim of IIT deductions up to 72-240 yuan per annum. Secondly, the products on the market are not attractive enough. Only IIT taxpayers can buy health insurance products qualified for preferential IIT treatment. A large number of IIT taxpayers already have enrolled in at least one supplementary health insurance plan, the protection offered by which overlaps with health insurance products qualified for preferential IIT treatment, reducing the appeal of these products among the targeted population. Third, the enrollment process is cumbersome, further reducing the attractiveness of the products.

(3) Failure of the commercial health insurance industry to play its due role in deepening the healthcare reform

As the economy continues to grow, the society continues to progress and the healthcare reform deepens, the government is more willing than ever to support the development of commercial health insurance. The role of commercial health insurance in the healthcare reform gradually changes. Commercial insurance is not only an important part of the health security system, but also is expected to pull China's healthcare reform out of the deep water. Commercial insurance companies are mainly expected to play three roles.

First of all, they are expected to differentiated health insurance products to supplement basic health insurance programs and to meet customers' multi-level, diversified health security needs. In the meantime, they should play a role in the sharing of medical expenses and reducing the economic burden of residents. The scope of services covered by

commercial health insurance may include special services, innovative therapies, advanced inspection and testing, services using high-value medical equipment, high-value medical services, health management, nursing services and other health-related services. Secondly, commercial health insurance companies as specialized entities are expected to offer expertise. They are expected to participate in the management of basic health insurance, supplemental health insurance, critical illness insurance and other insurance funds. They should work together with basic health insurance to achieve the synergy between the public resources and the private resources. Commercial health insurance companies should play a role in reducing unreasonable medical expenses, curbing the rapid rise in medical expenses, improving the efficiency of basic health insurance management through appropriate product design, accurate forecasting, risk control and other functions. Third, commercial health insurance companies are encouraged to deeply involve in the provision of health care. They may set up medical facilities or create a platform to facilitate their cooperation with medical, nursing and other facilities, to better supervise medical services, control medical costs, and promote the optimal allocation of medical resources. Meanwhile, they can help expand the funding and income source of hospitals and physicians, motivating physicians to provide better, safer, more efficient and reliable services. In the UK, many physicians spend 70% of their working hours within the NHS system, which generates half of their income, and the other 30% serving patients covered by commercial insurance , which constitutes their other half income.

However, affected by the healthcare reform and poor pre-existing conditions in the industry, the commercial health insurance industry has

failed to play its expected role in deepening the healthcare reform and is facing the following three major problems:

First, the role of commercial health insurance companies in meeting the multi-level health needs of customers has not yet come into full play, not to mention their role in increasing physicians' income. In 2015, commercial health insurance payouts accounted for only 2.6% of revenue of medical facilities in the country, while the payouts of the basic health insurance programs accounted for 41.7%, which means that nearly half of the medical expenses were paid by the patients themselves.¹⁷ The reason is that, on the one hand, most medical facilities in China are public institutions and it is difficult for commercial health insurance companies to optimize the allocation of medical resources through the market mechanism. As a result, they also fail to improve product quality or significantly increase the demand for commercial health insurance.

On the other hand, some local governments do not fully understand the respective roles of basic health insurance and commercial health insurance and attempt to meet the health security needs of residents by raising the protection offered basic health insurance programs to an improperly high level, which not only contradicts the principle of “basic security” of basic health insurance programs but also squeezes out commercial health insurance products.

Second, the status of commercial health insurance companies in the management of basic health insurance programs and critical illness insurance plans is low, limiting the role they can play. The central government has issued a number of policies to encourage commercial health insurance companies to participate in the management of basic

¹⁷ The data is calculated based on the *2016 China Statistical Yearbook on Health and Family Planning*, 2015 *Bulletin on Human Resources and Social Security Development*, 2015 *China Statistical Bulletin on Health and Family Planning Development*, and the 2015 *Insurance Statistical Report*.

health insurance programs and critical illness insurance plans and many local development models such as Jiangyin Model, Zhanjiang Model and Taicang Model are very effective in local settings, resulting in the improvement of the management and service efficiency of the basic medical insurance system. However, commercial health insurance companies don't have any say in the terms of insurance policies. The financing and protection terms are determined by the government. The role played by commercial health insurance companies in the entrusted management of such insurance programs and plans is more like an executive who follows an executive order and a cashier of health insurance funds rather than a service provider.¹⁷ For example, the terms of the public procurement tender of critical illness insurance are currently decided by the government without consulting commercial health insurance companies. The top priority set out by the government is to balance income and expenses and protect against a loss instead of to seek profit. Critical illness insurance is a quasi-public good. Commercial health insurance companies need to take advantage of their expertise and make predictions according to the probability for onset, medical expenses, the size of population, etc. before launching a product. Continual implementation of a government-led tendering process may affect the operation of insurance funds. In respect of financing, most local governments allocate a part of the basic health insurance fund to winning companies as a critical illness insurance fund, which increases the financing pressure on the basic health insurance fund. Furthermore, because the top design fails to give the agency any say, commercial health insurance company's ability to negotiate terms related to the

¹⁷ Topic report 5, entitled "The Impact of Comprehensive Medical Reform on Commercial Health Insurance".

management of health insurance funds and product development is limited.

Third, the role of commercial health insurance companies in participating in the provision of health care, risk control and optimization of medical resource allocation has not come into full play. China's healthcare system is dominated by public institutions. Insurance companies are in a weak bargaining position when negotiating with public hospitals. Such imbalance makes it difficult to establish an in-depth cooperation mechanism that can affect doctors' behavior and medical costs. Currently, insurance benefits are paid on an item-by-item basis which can be easily manipulated to induce demand. Insurance companies mainly handle claims based on documents issued by hospitals. Thus, it is very difficult for them to monitor and restrain the behavior of hospitals, to control medical costs and to form a risk- and benefit-sharing partnership with hospitals. In addition, the lack of data is still one of the major obstacles to the participation of commercial health insurance companies in provision of health care. On the one hand, there is no effective data sharing mechanism inside insurance companies as well as between the insurance industry, the healthcare industry, and the social security industry. Furthermore, as the electronification of the healthcare industry started not long ago, non-standardized medical records are a huge obstacle to medical data analysis by insurance companies, preventing them from making accurate estimates. On the other hand, the ability of insurance companies to collect and analyze data is weak, and a lack of information hinders the development of health insurance.

(4) Inefficient and backward regulatory system and the lack of supporting policies

Although commercial health insurance grows rapidly in recent years, the ineffective regulatory system may affect the sustainable development of the industry in the long run. The following are three major regulatory problems faced by China's commercial health insurance industry:

First, the level of agencies issuing relevant regulations is low and some administrative regulations are no longer efficient. So far, there is no law related to commercial health insurance in China. The only regulation related to commercial health insurance is *Health Insurance Administration Measures* issued by the CIRC. It was issued by a government agency and its effectiveness is lower than laws and administrative regulations. In recent years, China's health insurance industry has developed rapidly and the healthcare system reform has further advanced. The commercial health insurance industry is faced by many new problems and challenges in its effort to participate in the construction of the healthcare system. A decade has passed since the *Health Insurance Administrative Measures* was introduced in 2006. It no longer meets the real-time needs of the health insurance industry. Only under an effective legal system can the commercial health insurance industry be regulated according to the law and thus achieve sustainable development.¹⁸

Secondly, the lack of supporting policies is not conducive to commercial insurance companies willing to participate in the construction of the health insurance system and the healthcare system. There are no

¹⁸ Topic report 4, entitled "Commercial Health Insurance Policies and Regulation".

unified tendering system or management, performance evaluation and operation standards in respect of participation in the basic healthcare system. In respect of management of critical illness insurance funds, localities have been exploring ways to allow commercial insurance companies to play their role efficiently, but they have not established a science-based supervision system. No regulations or standards have been issued in regard to how critical illness insurance plans should be financed (Should they be financed via the funds of the New Rural Cooperative Medical Scheme and basic health insurance schemes for urban and rural residents or should specialized funds be established for critical illness insurance plans?) and how commercial health insurance companies should participate in the management of critical illness insurance plans (i.e., bidding process, the scope of services and performance evaluation). To improve the healthcare system, some large commercial insurance companies have invested in healthcare facilities and make an effort to create a supply chain network for the health sector. However, the lack of relevant policies and regulations is not conducive to such attempts. In the meantime, the Internet sale channel of health insurance is developing rapidly, but online insurance providers are still exploring ways to sign contracts with customers, provide follow-up customer services and handle claims. The industry is in urgent need for regulatory rules related to new sales service models.

Third, there are no effective rules on differentiation between health insurance with other insurance products. It is difficult to distinguish health insurance products from life insurance products on the market. Health insurance products are quasi-public goods and are different from life insurance products in actuarial principles, risk control, operation

model, etc. Although *Health Insurance Administration Measures* issued in 2006 provides for qualification and business management of health insurance companies, such provisions are merely on paper. In practices, almost all property and life insurance companies can provide health insurance products, in the same way that property or life insurance products are provided. The level of specialization is low. The health insurance industry is in urgent need for proper accounting, actuarial, risk management and operating standards as well as an effective regulatory system.

IV. Future Directions and Key Areas of Development of Commercial Health Insurance

As mentioned above, with economic and social development, the change of disease model and the acceleration of population aging, problems causing by the rapid growth of health demand, the lack of service capacity of the social security system and limited financing are becoming more and more serious. The development of commercial health insurance can help meet the increasingly diverse health insurance needs of customers and improve the multi-level health security system, and is in line with the goals of the Healthy China strategy.

Currently, China's commercial health insurance industry is still facing many challenges. In view of the above challenges, we believe that the industry should continue to promote innovation and the supply-side reform, increase customers' insurance awareness, step up support by issuing preferential policies, promote the transformation of potential demand into effective demand, deepen the healthcare reform, promote the

development of commercial health insurance, and create an effective commercial health insurance regulatory system. To be more specific, the industry should focus on the following four tasks.

(I) Promoting innovation and the supply-side reform

1. Promoting product and service innovation to meet the diverse health insurance needs of customers

Business health insurance companies should attach importance to market research and step up demand-oriented innovation activities to offer differentiated products and services tailored to the diverse health insurance needs of customers.

On the one hand, they should actively develop innovative products that target specific regions, diseases and groups of people. The lack of product variety is one of the major problems faced by China's commercial health insurance industry. According to the results of the CDRF survey, 12.3% of all respondents believed one of the reasons for insufficient health insurance supply is the lack of product variety.

First of all, product innovation should ensure that products are suitable for the geographic region. China has a vast territory and the level of economic and social development varies greatly across the country. People's spending habits and health needs also vary greatly across regions.

According to the results of the CDRF survey, the percentage of respondents who had purchased at least one of the four major health insurance products and the percentage of respondents who intended to purchase in the next year (Table 2) varied greatly across regions. Affected

by the level of economic development, the extent of population aging and other factors, the percentage of respondents who had purchased critical illness insurance products in the northeastern region was highest and stood at 89.1%; the percentage of respondents who had purchased outpatient services and hospitalization insurance products was very high in municipalities directly under the central government and stood at 40.4%; the percentage of respondents who had purchased rehabilitation and care insurance was very high in the eastern region and stood at 15.7% and 13.9%, respectively. In respect of the types of health insurance products the respondents were willing to purchase in the coming year, 87.7% of the respondents in the northeastern region expressed willingness to purchase critical illness insurance products, which was the highest among all types of products; the majority of the respondents (51.4%) in the eastern area expressed willingness to purchase outpatient services and hospitalization insurance products; the percentage of respondents who expressed willingness to purchase rehabilitation and care insurance

地区	重大疾病		门诊及住院医疗费用津贴		康复		护理		其它	
	已购	预期购买	已购	预期购买	已购	预期购买	已购	预期购买	已购	预期购买
直辖市	78.9%	84.7%	40.4%	49.8%	11.5%	25.5%	9.5%	21.8%	9.4%	2.4%
东部	85.0%	83.8%	38.0%	51.4%	15.7%	28.0%	13.9%	23.6%	5.9%	1.2%
中部	82.1%	80.0%	32.4%	44.8%	12.1%	22.2%	10.8%	17.9%	9.1%	2.2%
西部	78.2%	81.5%	38.2%	50.5%	13.8%	25.6%	12.0%	19.9%	13.3%	3.4%
东北部	89.1%	87.7%	31.1%	50.0%	12.0%	30.9%	12.9%	27.3%	7.8%	3.6%

products in the northeastern region is higher than that in other areas. Internet-based big data platform can be used to analyze consumer data. The analysis results can be used to support product design to ensure the products are tailored to the needs of local residents.

Table 2: The Percentage of Respondents Who Had Purchased Health Insurance Products and the Percentage of Respondents Who Expressed Willingness to Purchase

in the Next Year by Type of Products (%)

Source: CDRF survey report, entitled “The Survey Report on the Demand of Commercial Health Insurance in China”.

地区 Region 直辖市 Municipalities directly under the central government 东部 Eastern Region 中部

Central Region 西部 Western Region 东北部 Northeast Region

重大疾病 Critical illness insurance 门诊及住院医疗费用津贴 Insurance for outpatient services and

hospitalization 康复 Rehab insurance 护理 Care insurance 其他 Other products

已购 Had purchased 预期购买 Intended to purchase

Secondly, insurance companies should develop personalized health insurance products based on the disease spectrum and the specific needs of different population groups and expand the scope of protection. To reduce the costs of osteoporosis treatment in Germany, Barmer GEK and DAK-Gesundheit (two German health insurance funds) have analyzed patient data collected from multiple regions to find a most cost-effective treatment solution for this disease. Based on the results of their analysis, they included an innovative drug into the scope of coverage. Some insurance companies in China are developing insurance products for diabetes. Collecting and analyze patient data to tailor products for specific critical illnesses can help meet the diverse needs of patients. For example, an insurance company launched a lifetime critical illness insurance plan covering a great number of illnesses. In addition to those covered by conventional illness insurance, it also covered more than 20 kinds of common diseases, to provide the insured with more comprehensive protection. Some insurance products are tailored to meet the health needs of the elderly population. Such products loose

restrictions on the age of the insured and allow senior citizens to renew their policies. China also encourage insurance companies to offer more long-term care insurance and disability insurance products to meet the diversified, multi-level, long-term protection needs of senior citizens.

On the other hand, insurance companies are encouraged to use Internet technology, develop innovative claims handling model, and improve service efficiency. The results of the CDRF survey show that 30.2% of the respondents held the view that complex, time-consuming claims process is among the top shortfalls of health insurance in China, and the speed of claims handling was the second most important factor considered by respondents when choosing health insurance products and 21.5% of the respondents chose this item. As can be seen from above, the importance of claims services to consumers is evident. At present, insurance companies have launched claims platforms that are connected with the platforms of healthcare facilities. Eligible customers can submit applications at the time of hospitalization and receive claims settlement upon discharge, which greatly improves the efficiency of claims handling. Some insurance companies use WeChat official accounts and other platforms to provide information on insurance products, purchase channels, follow-up services, etc., and customers can use such platforms to pay premiums and submit claims, allowing customers to enjoy a smooth, hassle-free service experience. Another example is that, in 2015, Aviva Singapore launched a mobile application Aviva ClaimConnect, which allows user to submit claims electronically with scans of relevant documents and receive updates on the status of claims, which helps both the insurance company and customers save time.

2. Vigorously developing non-return-of-premium health insurance products and promoting the supply-side reform

In respect of future trend and customer demands, commercial health insurance companies should gradually weaken the “life insurance” and “financial management” features of their health insurance products and focus on non-return-of-premium insurance that emphasizes protection. They are encouraged to offer products that can be integrated with basic health insurance and participate in the supply-side reform.

Currently, China’s commercial health insurance market is dominated by disease specific insurance, especially critical illness insurance products with a return of premium benefit, and the market share of non-return-of-premium products is very small. The task of “vigorously developing non-return-of-premium health insurance products” was first put forward in the Plan of the State Council for Deepening Healthcare Reform during the 13th Five-Year Plan Period, which stresses the protection feature of health insurance. Non-return-of-premium health insurance is reimbursement insurance which pays on an on-going basis for all medical expenses related to any health problem. In contrast to return-of-premium insurance, the biggest feature of consumer health insurance is that they don’t offer return of premium benefits and only provide health protection.

According to a report released by Boston Consulting Group (BCG) and Munich Re¹⁹, as China’s middle-class and wealthy populations grow, more and more people are turning to reimbursement policies in search of improved care, a more satisfactory experience, and a better chance of

¹⁹ *Opportunities Open Up in Chinese Private Health Insurance*, BCG and Munich Re, August 2016

ensuring their families' health. China's basic medical security system is characterized by wide coverage and low protection and cannot meet diverse needs as well as demand for better protection. Reimbursement health insurance products launched by domestic insurance companies are very popular among customers because of their design. These products are not subject to the catalog of social health insurance. In addition to reimbursement for secondary claims for basic health insurance, they also reimburse out-of-pocket expenses and will not reject customers due to pre-existing conditions. Such products provide better health protection and are widely welcomed by consumers, and have triggered a boom of reimbursement health insurance. The CRDF survey also shows that, in respect of product design, the respondents (49.3%) were most concerned about coverage and reimbursement ratio.

3. Actively developing insurance products for health management based on the concept of “Expanded Health”

As people's living standards and health awareness improve, their demand for health management, disease prevention, chronic disease management, rehabilitation and other services will further increase. Integrating health insurance with these health services and expanding the scope of services from only reimbursement of medical expenses to illness prevention, treatment process management and reimbursement of medical expenses have become premises for further development of commercial health insurance. With the “expanded health” concept as guidance, vigorously developing health insurance services related to health insurance products and strengthening health risk assessment and intervention can help us find a suitable development model for managed

healthcare in China.

In recent years, in addition to health insurance services, commercial health insurance companies in developed countries have also integrated health insurance services with health management services to provide customers with a full range of health security services, including health advice, “green channel” for hospital services and health fund management, to meet their multi-level health security needs. On the one hand, they strengthen the disease prevention education of the insured to prevent the deterioration of disease. On the other hand, they help medical service providers to effectively manage the health of the insured and improve treatment effect, which can reduce medical expenses and thus improve their risk control ability.

Take the US health insurance market for example. The US commercial health insurance companies focus more on health management and disease prevention. In 1973, the U.S. enacted the Health Maintenance Organization Act to encourage the development of health maintenance organizations (HMOs), change the traditional medical insurance model gradually into managed healthcare and integrate health management with health insurance. Specific management measures include the inclusion of a wide range of preventive health care services such as disease screening, comprehensive physical examination and dental care in the list of reimbursable items. The costs of these services may be partially or fully reimbursed. They also carried out different health promotion activities to encourage participants to improve their health by quitting smoking, keeping fit, reducing pressure, etc. and offer material incentives to those reaching the fitness goals. Some insurance companies sign contracts with professional health management agencies

and health clubs to offer discounts and other benefits. According to data, 55% of the total health insurance benefits in the U.S. are paid to 20% patients with chronic diseases and 20% of the total benefits are paid to 15% of the population with suboptimal health status, and the main intervention method for population with chronic conditions is health management services.

In addition, British health insurance companies also take great efforts to control medical costs and reduce the loss ratio by preventing the deterioration of disease through health knowledge promotion, disease prevention, chronic disease management, etc. For example, the UK-based health insurance company Bupa provides a wide range of health management services, including health hotline, occupational health education, physical examination and stress management, to “prevent, mitigate and treat diseases”.

Therefore, the roles of commercial health insurance companies should expand from health insurance providers to health insurance fund manager and health management service providers and provide comprehensive health risk management services to reduce the incidence of disease and the loss ratio. Insurance companies not only offer protection from medical expenses, but also provide the insured with pre- and post-event health management services. They aim to improve people’s health and reduce costs through data collection and analysis, health intervention, assessment and feedback. Many current advanced health management technologies, including wearable equipment, implants, large data analysis and Internet tools can be used to manage health.

4. Further improving the specialization of commercial health insurance products

There is no big difference between health insurance and life insurance or property insurance in actuarial practices, risk management and operation. All of them involve a lot of areas and require a high level of expertise in respective areas. Therefore, health insurance companies should focus on data accumulation and analysis, strengthen the cultivation of professional talents, improve communication with health-related industries and raise the level of specialization of the health insurance industry.

First, health insurance funds should be run by specialized health insurance companies. As we can learn from the experience of developed countries, fierce market competition will push general insurers to become more specialized insurers and health insurance will become more and more specialized at the company level. General insurance companies can be divided into two major categories: life insurance companies and property insurance companies. As life insurance and personal financial services markets become saturated, the growth of the life insurance market is slowing down and, due to factors such as the aging population and the development of medical technology, some insurance companies shift their focus to health insurance and separate health insurance business from their life insurance, annuity and other businesses, thus raising the level of specialization of health insurance. In 2000, the U.S. general insurer Aetna sold its life insurance and financial services businesses and became a specialized health insurance company. In 2004, the U.S.-based insurance company Cigna also announced its business

adjustment decision, shifting its focus to healthcare. In Germany, the health security system is dominated by social insurance and the law provides that only a specialized insurance company can offer health insurance products.

Secondly, special health insurance underwriting and claims management systems should be developed. Unified business standards of health insurance underwriting management, including disease coding, surgical coding, medical service provider coding, and medical service project coding, should be developed. In addition, insurance companies should establish an effective and strict claims management system and use advanced technical means to improve the efficiency of claims handling. On top of that, they should clarify the claims handling authority at all levels and set up a platform for the discussion of major, difficult and special cases.²⁰

Thirdly, they should set up a special information management system suitable for health insurance and make a continual effort to strengthen consumer data analysis capabilities. Powerful data analysis is not only an important tool to identify different needs of customers, but also a useful tool to develop new products. In Western countries, some insurance companies have begun to explore ways to use posts on social media as an important source of data on consumer preferences and risk data. Furthermore, they should also create an information system with process management, early warning, automatic insurance underwriting, automatic claims handling, medical institutions and medical services inquiry and other functions to raise the specialization level of health insurance business.

²⁰ Topic report 1, entitled “*The Supply Research of Commercial Health Insurance*”.

Fourth, they should strengthen the development of professional health insurance management, technical and marketing teams, and establish a science-based, specialized health insurance management system. They should develop a standard health insurance personnel qualification system, including qualification examination and other qualification platforms, to improve the professional quality of health insurance management personnel. They can also recruit health insurance talents and introduce advanced management technology through various channels (for example, by cooperating with relevant colleges and universities).²¹

(II) Raising customers' health insurance awareness, stepping up support by issuing preferential policies, and promoting the transformation of potential demand into effective demand

1. Raising health insurance awareness among resident by distributing relevant information on various media

First of all, they should use various media means to promote health insurance knowledge, strengthen consumer health insurance education, and transform potential demand for commercial health insurance into effective demand. The CDRF survey shows that most customers (45.1%) mainly get health insurance information from salespersons of insurance companies; only 19.3% customers get health insurance information via mobile phone and the Internet and only 6.2% through traditional media. It can be seen that the role of different types of media in the transmission of information related to commercial health insurance has not been fully

²¹ Topic report 2, entitled “*The Demand Research of Commercial Health Insurance*”.

exploited. We can draw on the experience of other countries in this field.

South Korea Ministry of Finance announced in 1977 as “insurance year” and launched an insurance education program. The insurance industry is also actively engaged in government activities. They vigorously promote insurance knowledge through television, newspapers, advertising and other public media and have achieved good results. Because of strong support from the government, the average annual growth rate of the Korean life insurance industry in the following decade reached 51%, much higher than the average annual growth rate of its GDP over the same period, which stood at 21%. Another example is the United States. In the U.S., state governments or state insurance regulators educate consumers about health insurance by issuing informative consumer manuals, organizing seminars, distributing educational materials, etc. There are many not-for-profit organizations in the United States that focus on insurance education. Their insurance knowledge promotion programs target groups ranging from ordinary consumers to students.²²

Secondly, in respect of consumers’ lack of confidence in insurance products, health insurance companies should step up consumer education, industry information disclosure, complaint handling and other services. First, they should provide accurate, comprehensive, easy-to-understand product information, analyze practices that infringe upon consumer rights and interests and protect consumers from implied, unfair terms and other frauds. Second, commercial health insurance companies should establish a standard industry information disclosure platform to disclose fraudulent companies and products and put them into an industry or product

²² Huang Su, Feng Pengcheng. On stepping up public insurance education in China, *Journal of Insurance Professional College*, 2007(4).

blacklist. Third, they should improve health insurance complaints handling and other supporting systems and platforms to make sure customers have nothing to worry about.

For example, Japan's insurance company LifeNet uses website interface design and process system to guide customers to the detailed information of their insurance products, and integrates animation and sound effects into product presentation to support informed consumer decision-making. The company does not advocate marketing, persuasion and other traditional means of sales. Instead, they provide customers with a platform to learn insurance knowledge. On this platform, customers can learn general insurance knowledge and how to develop insurance plans. If customers have other questions, they can call the phone number for free or e-mail the to the email address provided on the website of the company. This approach can raise the awareness of consumers about insurance, provide them with access to insurance knowledge and promote insurance products.

2. Improving tax incentives, increasing tax cut and improving the design of policy

Health insurance, as quasi-public goods, has an irreplaceable role in the provision of multi-level health security for people. Countries generally have introduced relevant policies to support the development of commercial health insurance and tax incentives are among the government's most important tools to support commercial health insurance. Most developed and developing countries, such as the United States, France, Germany, Australia and South Africa, provide tax incentives for business health insurance policyholders and operators to

support health insurance development.

The Australian government provides different premium subsidies based on income and age and has achieved good results. Australia launched the Commercial Health Insurance Incentive Act in 1998, which stipulates that, starting 1999, eligible Australians are allowed a 30% private health insurance rebate from the government. In 2005, the Australia government began to offer a 35% private health insurance rebate to customers between 65 and 69 years of age and a 40% rebate to customers over 70 years of age. On top that, Australia also plans to reduce the subsidy to the affluent population. In 1999, less than 6 million Australians purchased health insurance. By 2017, more than 10 million people in Australia participated in commercial health insurance, accounting for more than 47% of the population in Australia.

The U.S. government mainly offers tax incentives for group health insurance, individual health insurance and health insurance for self-employed individuals. In the case of group insurance, the government excludes from taxation employers' contributions to group health plans benefiting employees and there is no upper limit. For individual coverage, the out-of-pocket expense or \$2,700 (\$ 5,400 for families), whichever is larger, is deductible. For self-employed individuals, since 2007, they may claim a deduction for 100% of commercial health insurance premiums they paid.²³

Based on China's current situation and international experience, China may further improve its commercial health insurance tax incentives through following three methods. First, increasing the amount of deduction. Each Chinese resident is currently allowed up to total tax

²³ Sun Dongya, Fan Juanjuan, What China Can Learn from the U.S. in the Development of Commercial Health Insurance. *China Insurance*, April 2012.

deductions of 2,400 yuan for premiums paid for commercial health insurance. Data show that, in the 1990s, each resident in Taiwan Province of China was allowed total deduction of 4,800 yuan for premiums paid for commercial health insurance. Compared to Taiwan Province, the maximum tax deduction in Mainland China need to be further increased. At the same time, in order to encourage government agencies to buy commercial health insurance, they are also allowed partial tax deduction on supplementary health insurance premiums paid for employees. Secondly, increasing protection and coverage. Chinese health insurance companies are recommended to research and develop products that are connected with the existing health security system. The government may offer tax incentives for disease-specific products. The groups that are eligible for tax incentives should be expanded. China may draw on the experience of Australia and offer differentiated tax incentives to different groups of people by income and age. Some cities may trial implement family-based health insurance tax incentive policy, allowing the insured to purchase insurance for their minor children, spouses, parents and other immediate family members to increase the coverage of health insurance. Thirdly, simplifying the process. China should develop an industry-wide standard directory for health insurance products eligible for tax incentives other than the social security directory; explore different ways, including electronic information platform, to simplify the tax rebate process and increase the willingness of customers to purchase commercial health insurance.

3. Promoting best practices in the use of personal account balance and encouraging residents to purchase commercial health insurance products

The government should introduce a policy stipulate that balance in urban employees' basic health insurance accounts can be used to commercial health insurance or other healthcare products. This will help meet the multi-level health needs of the population. Employees in Shanghai are allowed to use the balance in their basic health insurance accounts to buy commercial medical insurance products. The pilot program of this policy has achieved remarkable results. The municipal government of Shanghai has worked with the insurance company to develop hospitalization insurance and critical illness insurance products that can be purchased using the balance in individuals' basic health insurance accounts, which greatly improve the connection between commercial health insurance and urban employees' basic health insurance. In addition, more than ten cities, including Nanjing, Suzhou, Nantong, Shenzhen, Chengdu and Tai'an, have encouraged residents to use their basic health insurance card to pay for fitness products and services. Suzhou, Suqian, Liuzhou, Lanzhou and other cities also allow employees to use the fund in their basic health insurance account to pay for physical examination and vaccines for hepatitis B, influenza, rabies, etc.

(III) Deepening the healthcare reform and promoting the development of commercial health insurance

The development of commercial health insurance is based on the

deepening of the healthcare reform. The direct goal of the healthcare reform is to increase the access to medical services and reduce medical costs. The deeper purpose is to create well-functioning, high-quality and efficient healthcare and health security systems to improve people's livelihood and welfare. With the deepening of the healthcare reform, on the one hand, the health security system will improve and the role and the scope of protection of basic health insurance program will be further clarified. The synergy between social security and commercial insurance will come into play. Commercial insurance companies' status as "partners" of the government in the basic health insurance system will be further affirmed. They will play a better role in supplementing basic health insurance programs. Instead of being "squeezed" out of the market by basic health insurance programs, commercial insurance products will gain a broader consumer base and the demand for commercial health insurance products will increase. On the other hand, the government and the market mechanism will work together in a more efficient manner to build a multi-level health service supply system. Commercial health insurance companies' weak position in negotiation with public hospitals will change and their data collection, product design and risk control capabilities will greatly improve, leading to a substantial increase in their ability to supply insurance products. Specifically, to deepen the healthcare reform and effectively promote the development of

commercial health insurance, we should focus on the following four tasks.

1. Defining the boundary between commercial health insurance and basic health insurance and clarifying the responsibilities of the government and the market

To build a multi-level health security system in China, we need give full play to the respective role of the government and the market. First of all, the government should offer basic protection while the market should ensure multi-level diversification of insurance products. The role of the basic health insurance system as provider of basic protection from medical costs using limited social resources should be further affirmed. We should shrink the financing boundary of basic health insurance programs to allow commercial health insurance to have more room in the market. In the meantime, we should establish a "universal" social health insurance system that only offers basic protection to reduce pressure on less developed areas and ensure sustainable operation of insurance funds.²⁴ Commercial health insurance companies should adopt market-oriented measures to meet the people's multi-level, diversified health security needs. S

Specifically, commercial health insurance products as necessary supplements to basic health insurance, should focus on protection from the following health costs: (i) the out-of-pocket expenses and the amount of expenses exceeding the cap line of basic health insurance programs; (ii) drugs and services not included in the basic health insurance directory,

²⁴ Topic report 5, entitled "*The Impact of Comprehensive Medical Reform on Commercial Health Insurance*".

including imported drugs and physical examinations; (iii) expenses of drugs and services provided by non-designated health service facilities, such as rehabilitation centers, VIP beds, private clinics, etc .; (iv) income subsidy, nursing allowance and other related costs.

2. Separating management and operation functions in the participation of commercial health insurance companies in the management of basic health insurance funds and reaffirming the “partner” status of commercial health insurance companies

Based on international experience and domestic experience, in addition to the “cashier” role, commercial health insurance companies can also introduce their innovative concepts and professional operation models into the public healthcare sector through public-private partnership. Health insurance authorities will no longer participate in micro-management of health insurance funds. Instead, commercial insurance companies which sign contracts with the authorities will be responsible for assessment, planning, procurement, performance review and design of special products other than basic insurance programs. This model will improve the efficiency and quality of medical services. The health insurance authorities will focus on industry regulation and keeping the industry in good order. In this respect, we can draw on the experience of the UK and the United States.

In 2007, the British government introduced Framework for procuring External Support for Commissioners (FESC), which encourages private insurers to participate in the management of the national healthcare system. The FESC issued by the UK Department of

Health (DOH) allows qualified commercial insurers to provide NHS with the following four categories of management services: (i) assessment and planning, mainly including assessment of healthcare demand and medical services and design of the medical supply structure; (ii) contract signing and procurement: more specifically, signing contracts on behalf of the government, with general medical and specialist medical service providers; (iii) compliance management, dispute resolution and medical review; and (iv) interaction with patients and public relations management. A very important obligation of private insurers that join the FESC is to assess problems in the healthcare system, to provide advice and to use Internet-based data platforms to analyze data to enhance performance management.

The United States passed the HMO (Health Maintenance Organization) Act in 1973 and the Tax Equity and Fiscal Responsibility Act (TEFRA) in 1982, allowing more private insurers to participate in the management of the public healthcare system. The U.S. government signs contracts with private insurers to entrust a large number of government health care projects (such as Medicare and Medicaid) to commercial health insurers which provide information, advice, claims review, benefit payment, financial audit and other specialized services at an agreed price, but do not bear the risk of the insurance funds. Furthermore, commercial health insurance companies are allowed to increase their operation authority by taking responsibility for the risk of the fund. Their products design for this purpose must include the basic items of the government-sponsored health insurance programs. They are also allowed to cover dental services, ophthalmic services, disease management and other special services to enrich customers' options. Take Medicare for

example. Medicare Advantage (MA) plans sold by private insurers not only covers all items under Medicare but also offer additional protection from medical costs related to some chronic diseases. In order to increase the attractiveness of the plans, additional items tend to be offered at low prices. Applicants are free to choose between Medicare and MA.²⁶

In respect of the management of critical illness insurance funds, to allow commercial health insurance companies to play a more efficient role in the provision of critical illness insurance, we should: (i) standardize the bidding process and develop a reasonable evaluation method; curb irrational price competition and ensure the insurance companies balance income and expenses of the critical illness insurance funds and protect against a loss instead of solely seeking profit; implement an evaluation system to force insurance companies to pay more attention to service quality and to create a market environment that enables standardized and orderly competition; (ii) clarify the way insurance funds should be managed, as well as the corresponding risk-sharing mechanism and responsibility, and determine the price of management services based on science-based forecasts and submitted bids; (iii) allow insurance companies to play to their strength and use the basic health insurance information system to audit medical expenses efficiently, strengthen medical risk control, effectively reduce fraud, waste and unreasonable expenses; (iv) step up the management of critical illness insurance policies, standardize provincial critical illness insurance contracts and prevent management fragmentation in this field; and (v) improve management services, develop a performance evaluation system, assess the efficiency of commercial insurance companies and regulatory

²⁶ Wang Min, Huang Xiao. International Experience and Inspiration on the Participation of Commercial Health Insurance Companies in the Construction of the Health Insurance System [J]. April 2015.

agencies.²⁷

3. Promoting the development of medical professionals and promoting the construction of the multi-level health service supply system

Healthcare professionals are the key to the health service supply system. To build a multi-level health service supply system, to change the dominating position of public hospitals in various medical service fields, to encourage commercial health insurance companies to get more deeply involved in the provision, supervision, cost control of medical services, we need to focus on the human resource system and cut the traditional connection between doctors and hospitals, build a new hospital-doctor relationship and flexibly use high-quality medical human resources.

In the reform of public hospitals, many countries have adopted a flexible medical practitioner system, and hospitals are given greater discretion in HR matters. The administrative layer of the doctor-hospital relationship has been removed. The doctor-hospital relationship is moving towards contractual relations. For example, in Germany, most hospitals contract specific services to practitioners on a part-time basis. This flexible employment arrangement is conducive to balancing resources between the public and private sectors. Multipoint practice has become common in many countries, but the second practice of public

²⁷ Topic report4, entitled “*Commercial Health Insurance Policies and Regulation*”.

hospital doctors is usually limited by a range of measures. First, seniority requirements. New resident physicians are not allowed to go into practice alone, in the United States, UK and Germany. Second, restrictions on the place of practice. For example, in the United States, practicing in multi-state requires licenses issued by each of the states where a physician is practicing in. Third, time requirements. For example, the United Kingdom adopts a "4 + 1" model to limit the time spent by a physician of a public hospital on his/her second practice. Fourth, the restrictions on the type of practice. In Singapore, the second practice of public hospital doctors must also be a public hospital while, in the United States, a physician practicing in a federal facility is not allowed to practice in other facilities.²⁸

4. Creating a health insurance data platform and promoting data sharing within the health insurance industry and between industries

Medical expenses management and specialized management are inseparable from information technology and large data. The mining and use of health-related data will help regulate the behavior of healthcare facilities, monitor the quality and safety of medical services, achieve cross-organization and cross-regional health insurance settlement, and fight insurance fraud. In addition, the construction of a big data platform for the healthcare system will help promote the innovation and development of insurance actuarial products. Health management data,

²⁸ CDRF: A Study of China's Healthcare Reform, 2016.

behavioral data and environmental data will be used in the development of new products and help companies tailor products to meet differentiated, personalized needs of customers.

First, promoting the standardization of information and management systems. Data sharing is central to the cooperation between healthcare facilities, health insurance companies, and health services providers. Information and management system standardization is the prerequisite for data sharing and integration. The standardization of diagnosis files, disease coding, operation coding and medical terminology, which was put forward by the NHFPC is of great significance for medical and health information system standardization and for the full participation of commercial health insurance companies in health management and whole-process management of hospitalization services in addition to reimbursement.

Secondly, promoting the trial implementation of data sharing mechanisms to share health and medical information between healthcare facilities, health insurance companies, and health services providers. On the one hand health insurance authorities and hospitals should speed up the standardization of information systems or information sharing, standardize management and strengthen cooperation to ensure health insurance funds are used efficiently. On the other hand, we should promote data sharing between health insurance authorities, healthcare facilities and insurance companies so that commercial insurance companies can play to its strengths in data analysis and risk control.

Qingdao City, Shandong Province is making similar attempts. The healthcare industry can create a smart health insurance platform, via which the insured can gain access to health management and health

security services in a more convenient manner, health insurance authorities can provide guidance for the allocation of healthcare resources to improve service quality and efficiency and reduce medical costs, and commercial insurance companies collect data, attract participants and develop diversified insurance and health services and products. Whether it is for medical service providers or for health insurance fund manager, it will increase convenience and operation effectiveness for them significantly.

Thirdly, promoting legislation for the protection of medical and health information. Medical and health information is extremely sensitive. In the construction of a universal electronic health file system, how to handle patients' health information to protect their privacy will become an increasingly important question. To protect patients' health data, a law should be passed to regulate the use of health insurance data.

(IV) Creating an effective commercial health insurance regulatory system

1. Push for higher-level legislation to build a better external policy environment

We should push for higher-level legislation and policy support and keep up with the time to improve relevant regulations. Specifically, we may improve the Social Insurance Law and Health Law to define basic medical insurance, medical services, pharmaceuticals, and commercial health insurance more clearly and in a refined manner, set clear relationship between them in cooperation, with clarified rights and obligations, and provide sound legal basis for the future development of

the expanded health industry. Meanwhile, keeping up with time, we should also revise the Management Measures for Commercial Health Insurance, and formulate Regulations on the Operation and Management of Health Insurance so as to regulate commercial health insurance in a more professional way.

Commercial health insurance covers a wide business scope, involves various aspects in management, has large turnover, and requires complicated services. To run a commercial health insurance program, medical institutions and government authorities for social security must also be involved besides the insurer and the insured. As a result, to regulate such operations, we must coordinate between various parties. Commercial health insurance plays a supplementary role in the multi-tiered medical security system of China and it is subject to the influence of social security policies, health and medical care policies, and the overall institutional environment, to a large extent. Therefore, while strengthening regulation and guide insurance companies to operate in a well-regulated manner, relevant authorities should also make active efforts to collaborate and communicate with the authorities in charge of healthcare and social security, so as to create a positive external environment for the development of health insurance.²⁹

In developed countries, the relevant regulatory systems are well-developed with laws and regulations. For example, in Australia, private health insurance must abide by very strict requirements set out in nearly 20 relevant laws, including the National Health Act 1953, the Health Insurance Act 1973, and the Private Health Insurance Act 2007, the last of which has gone through multiple revisions after its

²⁹ Topic report4, entitled “*Commercial Health Insurance Policies and Regulation*”.

promulgation. Also, the Australian legal system defines clearly the scopes of universal health insurance and private health insurance to ensure sustainable development of both.³⁰

2. Improve supporting policies and encourage commercial insurance operators to participate in the building of the medical insurance and medical service systems.

First, we should define clearly the positions and roles of health insurance in handling basic health insurance, undertaking medical insurance for major diseases, and running supplementary medical insurance schemes by setting relevant legal provisions. This will help us improve the review and approval of health insurance operators, and set premium standards and facilitate law-based business operation and administration. We should be serious and deal hard blows according to law on violations and unfair competition that arise when a commercial insurance company handles basic medical insurance and major disease insurance programs, so as to maintain good market order. Meanwhile, we should improve supervision over service quality, improve information transparency, and invite the general public to serve as supervisors.

Second, we should put in place policies and regulation for the participation of commercial insurance operators in the building of the health industry chain. In particular, for the online insurance industry which has been growing rapidly in recent years, we should enhance supervision over the purchase, services, and claims of online health insurance in order to protect the rights and interests of consumers.

³⁰ Fan Juanjuan. Regulatory Environment of Private Health Insurance in Australia and What to Learn from it. Insurance Studies, 2010 (2).

3. Pose higher requirements for the professional operation of commercial health insurance

First, relevant regulatory authorities should establish dedicated departments for health insurance regulation. This will make it easier for the authorities to coordinate with those authorities in charge of basic medical insurance, and health care and to create a more positive policy environment. It will also help us secure professional teams to provide better guidance and regulation for the industry and promote healthy and orderly development.³¹

Second, we should strength control over access to this sector, strive for an overall situation where health insurance programs are run by specialized health insurance companies who are in close cooperation with medical institutions. The administration of health insurance is complicated and involves high risks. The industry is also greatly influenced by the overall environment of the medical and health care sector. In particular, there are moral risks and the issue of adverse selection. Therefore, it is very necessary that health insurance programs be operated by specialized health insurance companies with special techniques and tools for risk control. These companies should be involved more in the process of medical service provision to avoid an unnecessarily high loss ratio. In fact, traditional life insurance companies in the United States started to quit health insurance as early as in the 1980s, while specialized health insurance companies like Blue Shield and Blue Cross are all in close cooperation with medical institutions, signing strategic cooperation agreements to enhance their intervention and control

³¹ Topic report 4, entitled “*Commercial Health Insurance Policies and Regulation*”.

medical expenditures.

Third, we should move faster to enable commercial health insurance operators to adopt the same data standards and management systems with the medical and health care system. Commercial health insurance covers a very broad scope and involves medical institutions, government authorities for medical insurance administration and various other parties in its operation. Therefore, it is highly necessary for the operators to adopt unified data management and regulation systems. Thus, to improve the connection and coordination between commercial health insurance operators and the medical and health care sector, the regulatory authorities should make active efforts to promote data management systems that conform to the standards of medical institutions among commercial health insurance operators, so as to achieve well-coordinated data collection, storage, and analysis. Also, efforts should be made to form more detailed data standards that go in line with the medical data system of the Ministry of Health.

Lastly, we should further improve the sales, underwriting, risk control, actuarial, and claim systems that meet the special needs of health insurance and are different from those used for property insurance and life insurance. This will help us regulate the behavior of market players, and make more professional services available to the general public. To tackle the existing problems of a prolonged claim process and various difficulties in getting compensations, China Insurance Regulatory Commission and various insurance companies should enhance their coordination and watch out for and impose punishment on waste, misuse, cheating and other abnormal behaviors encountered in the claim process. The regulatory authorities may make a black list on the national level to

keep record of cheating incidents and the relevant individuals and institutions. Meanwhile, measures should be taken to promote the transition towards real-time settlement by commercial health insurance. Currently, for commercial health insurance, patients pay their medical bills first and claim the expenditures from their insurance companies later. But to get a claim approved, one needs to do a lot of paperwork. In contrast, for basic medical insurance, patients do not need to pay the part of their bills that is covered by the insurance and do not need to do anything to claim their due compensations. If we can achieve the same for commercial health insurance, the overall work efficiency will be improved and people will enjoy more benefits.