

**THE EMERGING PRIVATE SECTOR
IN THE CHINESE HEALTH SYSTEM**

QIAN Jiwei

EAI Background Brief No. 1033

Date of Publication: 11 June 2015

Executive Summary

1. The two most important challenges of the Chinese health system are affordability and accessibility. In 2013, total health expenditure accounted for about 5.6% of gross domestic product, an increase from 4% in 1997. Annual visits to tertiary hospitals increased by over 550 million between 2009 and 2013. Bed utilisation rate in third-class hospitals has been over 100% since 2009.
2. The private sector can help meet the two challenges in three ways. First, render the prices of services and drugs more competitive, thereby improving affordability.
3. Second, increase supply of health-care services and address the accessibility of health care. Third, improve the financial coverage via private health insurance for patients by reimbursing a wider range of services.
4. The private sector has played a significant role in the health-care service market. In 2013, 10% and 12% of outpatient and inpatient services were provided by private hospitals, respectively. There are over 100 companies offering private insurance products. Annual premium revenue reached over RMB150 billion in 2014.
5. The role of the private sector in health-care service delivery and health insurance is still limited in China. Private hospitals are also small in scale. In 2013, only 92 private hospitals had more than 500 beds while there were more than 2,200 public hospitals with more than 500 beds.
6. Private insurance is also underdeveloped. While the premium of private insurance had increased to over RMB10 billion in 2013, the ratio of premium and total health expenditure was only about 3.5%, compared to 3.67% in 2003.
7. The reasons for the underdevelopment of the private sector include strict regulations, insurance designation bias against private hospitals, insufficient risk-

managing capacity and crowding-out effect of expanding social health insurance schemes.

8. Since 2013, the State Council has announced a series of guidelines to encourage private health insurance as well as the establishment of private hospitals and hospitals with mixed ownership.
9. The entry of the private sector in the health service market involves the privatisation of public hospitals and the restructuring of the hospitals' capital structure in the form of a mixed ownership. On health insurance, some private insurers manage the complementary social health insurance “catastrophic medical insurance programme” to improve the financial coverage of patients.
10. Institutional constraints include the deregulation of private hospitals, which is still at an early stage, the strict regulation of private insurers and the absence of tax rebate policy for private insurance.