Future Role of Public and Private Health Insurance in Asia

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A COMMON CHALLENGE ACROSS ASIA

Health care systems around the world are under pressure to tackle multiple challenges

Ensuring ongoing
sustainability
- Improving value for spending
- Ensuring rational adoption of new drugs, devices, and technologies
- Creating value conscious consumers and cost competitive providers

Delivering high
quality
- Managing rising numbers of chronic disease patients
- Reducing variations in clinical practice
- Adopting evidence-based care

How to best balance cost, quality, and access in a manner that is both sustainable and consistent with social values and political goals?

Providing
access
- Defining "right" level of care and coverage
- Defining role of private and public sectors
- Ensuring equity across the system

A COMMON CHALLENGE ACROSS ASIA

If healthcare spending continues rising as in the past, it would start consuming disproportionate amounts of GDP in most developed countries

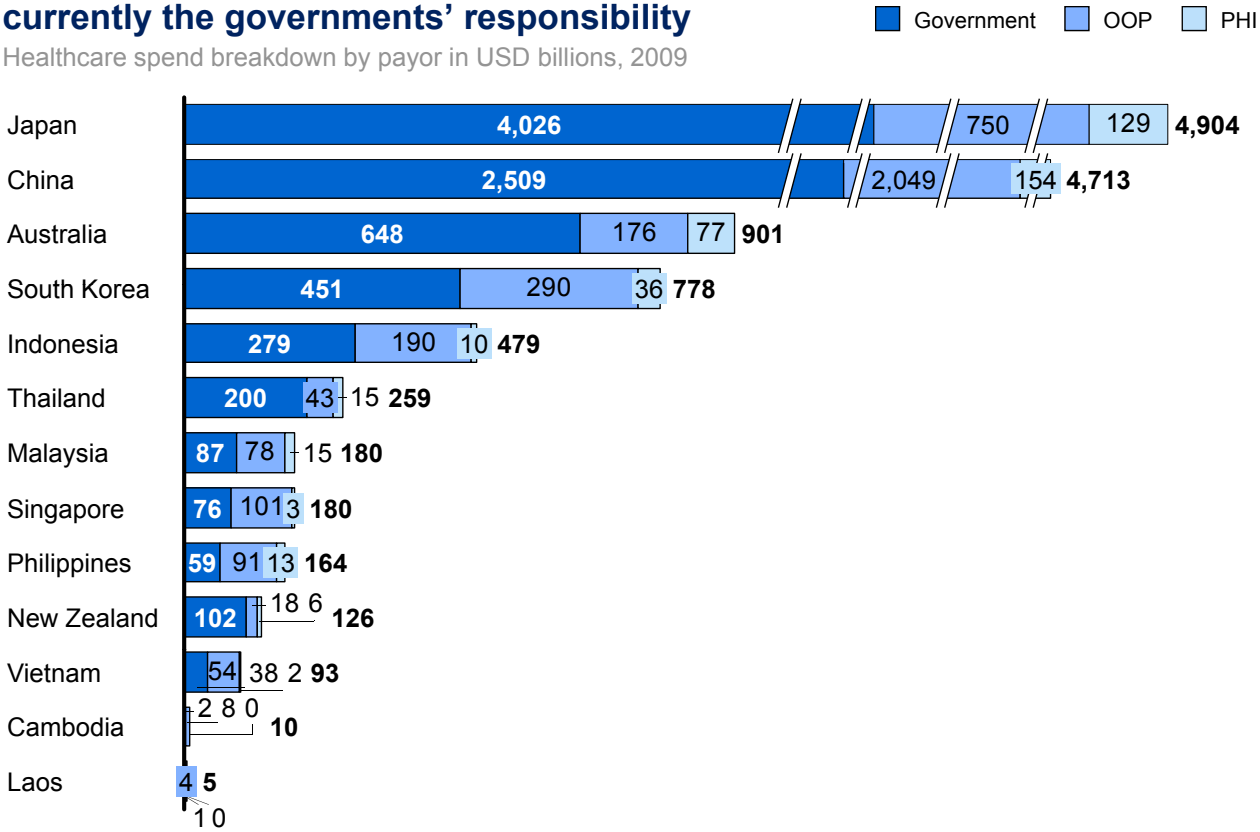
	Half OECD-historic rate: GDP + 1.0					OECD-historic rate: GDP + 2.0				
OECD	2005	2030	2050	2080	2100	2005	2030	2050	2080	2100
USA	15.3%	19.5%	23.7%	31.8%	38.7%	15.3%	24.9%	36.7%	65.6%	96.8%
Switzerland	11.6%	14.8%	18.0%	24.1%	29.3%	11.6%	18.8%	27.8%	49.8%	73.4%
France	11.1%	14.2%	17.2%	23.1%	28.0%	11.1%	18.0%	26.6%	47.6%	70.2%
Germany	10.7%	13.7%	16.6%	22.2%	27.0%	10.7%	17.4%	25.6%	45.9%	67.7%
Belgium	10.3%	13.1%	16.0%	21.4%	26.0%	10.3%	16.7%	24.7%	44.2%	65.2%
Austria	10.2%	13.0%	15.8%	21.2%	25.8%	10.2%	16.6%	24.4%	43.8%	64.5%
Portugal	10.2%	13.0%	15.8%	21.2%	25.8%	10.2%	16.6%	24.4%	43.8%	64.5%
Greece	10.1%	12.9%	15.7%	21.0%	25.5%	10.1%	16.4%	24.2%	43.3%	63.9%
Canada	9.8%	12.5%	15.2%	20.4%	24.8%	9.8%	15.9%	23.5%	42.0%	62.0%
Australia	9.5%	12.1%	14.7%	19.7%	24.0%	9.5%	15.4%	22.8%	40.8%	60.1%
Iceland	9.5%	12.1%	14.7%	19.7%	24.0%	9.5%	15.4%	22.8%	40.8%	60.1%
Netherlands	9.2%	11.7%	14.3%	19.1%	23.2%	9.2%	14.9%	22.0%	39.5%	58.2%
Denmark	9.1%	11.6%	14.1%	18.9%	23.0%	9.1%	14.8%	21.8%	39.0%	57.6%
Norway	9.1%	11.6%	14.1%	18.9%	23.0%	9.1%	14.8%	21.8%	39.0%	57.6%
Sweden	9.1%	11.6%	14.1%	18.9%	23.0%	9.1%	14.8%	21.8%	39.0%	57.6%
New Zealand	9.0%	11.5%	14.0%	18.7%	22.7%	9.0%	14.6%	21.6%	38.6%	56.9%
Italy	8.9%	11.4%	13.8%	18.5%	22.5%	8.9%	14.5%	21.3%	38.2%	56.3%
Luxembourg	8.3%	10.6%	12.9%	17.3%	21.0%	8.3%	13.5%	19.9%	35.6%	52.5%
UK	8.3%	10.6%	12.9%	17.3%	21.0%	8.3%	13.5%	19.9%	35.6%	52.5%
Spain	8.2%	10.5%	12.7%	17.0%	20.7%	8.2%	13.3%	19.6%	35.2%	51.9%
Hungary	8.1%	10.3%	12.6%	16.8%	20.5%	8.1%	13.2%	19.4%	34.8%	51.2%
Japan	8.0%	10.2%	12.4%	16.6%	20.2%	8.0%	13.0%	19.2%	34.3%	50.6%
Turkey	7.6%	9.7%	11.8%	15.8%	19.2%	7.6%	12.3%	18.2%	32.6%	48.1%
Finland	7.5%	9.6%	11.6%	15.6%	18.9%	7.5%	12.2%	18.0%	32.2%	47.4%
Ireland	7.5%	9.6%	11.6%	15.6%	18.9%	7.5%	12.2%	18.0%	32.2%	47.4%
Czech Republic	7.2%	9.2%	11.2%	15.0%	18.2%	7.2%	11.7%	17.3%	30.9%	45.5%
Slovak Republic	7.1%	9.1%	11.0%	14.8%	17.9%	7.1%	11.5%	17.0%	30.5%	44.9%
Mexico	6.4%	8.2%	9.9%	13.3%	16.2%	6.4%	10.4%	15.3%	27.5%	40.5%
Poland	6.2%	7.9%	9.6%	12.9%	15.7%	6.2%	10.1%	14.9%	26.6%	39.2%
Korea	6.0%	7.7%	9.3%	12.5%	15.2%	6.0%	9.7%	14.4%	25.7%	38.0%

SOURCE: Forecast model assuming real GDP growth of 2.0%, health care spending growing at 0.95/1.9 percentage points above; OECD Policy Implications of the New Economy 2000–50 (2001); Global Insight WMM 2000–37

A COMMON CHALLENGE ACROSS ASIA

In Asia Pacific countries, most of the financial burden in healthcare is currently the governments' responsibility

Healthcare spend breakdown by payor in USD billions, 2009



SOURCE: WHO; McKinsey analysis

LEARNING FROM PAST EXPERIENCES

Vietnam: Low public and private coverage typical of developing economies

	What insurance has achieved	Remaining gaps & challenges
Public Insurance	▪ **~40% coverage** rate with 2/3 contribution from state funds ▪ **OOP payment remains at 55%** with only modest decrease in recent years	▪ **Many still without financial protection**: Low coverage and compliance amongst wage workers and near-poor ▪ Fee for service mechanism (with little control over purchasing) causing **rising budget deficit**
Private Insurance	▪ **Remains a niche market** for the affluent given overall income level and affordability	▪ **No significant impact** on the system

SOURCE: WHO; World Bank; McKinsey analysis

LEARNING FROM PAST EXPERIENCES

China: Complex governance structure is restricting China from reforming provider performance through insurance

	What insurance has achieved	Remaining gaps & challenges
Public insurance	▪ **> 95% coverage** with 3 reformed government schemes with emphasis on catastrophic diseases and inpatient services ▪ **Reduction of OOP** from 55% to 41% in 10 years	▪ **Overlap in scheme enrolment** clouding the true coverage picture ▪ **Low effective reimbursement** in future cost drivers (e.g., chronic diseases) ▪ Reform of insurance **not linked with payment mechanism reform** (currently in pilot phase) ▪ **Complex governance structure** with different ministries at national, provincial, and district level
Private insurance	▪ **Early momentum** from overseas insurers with significant growth (CAGR 20%) in past 10 years	▪ Products are mainly **transaction-based** from life insurers that are not incentivizing “right” behaviors ▪ **Insufficient definition of its role** in market and **regulatory oversight**

SOURCE: WHO; World Bank; McKinsey analysis

LEARNING FROM PAST EXPERIENCES

Taiwan: Increase in access was not adequately counterbalanced by demand controls such as co-payments

	What insurance has achieved	Remaining gaps & challenges
Public insurance	▪ **>99% coverage** - premium contribution differs by employment, income, and special population ▪ **Free choice of providers** ▪ **Free preventive services** (e.g., annual health checks) ▪ **Low co-payment** (as low as US$ 5 per visit)	▪ **Structurally widening deficit** ▪ **Overutilization** ▪ **Insufficient regulatory oversight** on growth of commercial medical institutions affecting quality (payment based on volume and not quality)
Private insurance	▪ **Significant uptake of PHI** supplemental to NHI (annual PHI revenue is ~45% of NHI revenue)	▪ **PHI as supplement to NHI** with loosely defined area of use ▪ **PHI not actively addressing** the same issue on **provider and patient behaviors**

SOURCE: WHO; World Bank; McKinsey analysis

LEARNING FROM PAST EXPERIENCES

Hong Kong: Lack of coordinated private funding will continue to put pressure on Hong Kong's public hospital system

	What insurance has achieved	Remaining gaps & challenges
Public insurance	▪ **No public health insurance** scheme ▪ **Universal coverage provided** through Hong Kong Hospital Authority which charges US$ 15/day for inpatient services, with additional subsidies for select population	▪ **Ongoing over-reliance on public system financially unsustainable** ▪ **Previous** healthcare financing **reform proposal failed to gain traction** ▪ Current proposal to establish a public **Voluntary Health Protection Scheme (HPS)** to be delivered through a more regulated and transparent PHI industry
Private insurance	▪ **Multiple established players** with competitive products coverage for 1/3 of population ▪ Allows patients to bypass public surgical waiting lists that have grown in past years	▪ Products are mainly **transaction-based** underwritten by traditional P&C and life insurers ▪ Growing premium as a result of rising prices caused by supply constraints in private hospitals

SOURCE: WHO; World Bank; McKinsey analysis

LEARNING FROM PAST EXPERIENCES

Japan: Relying almost solely on public insurance

	What insurance has achieved	Remaining gaps & challenges
Public insurance	▪ **Mandatory public insurance** for all residents ▪ **Equality in coverage** and thus access for all	▪ **High co-payments** (30% of treatment cost, 10% for over 70s) with relatively high caps limit insurance, while having little effect on more cost-effective behavior ▪ **10% of households avoid paying mandatory insurance**, not covered ▪ 4,000+ payors, **but no differentiated offering**, no choice
Private insurance	▪ Available only in **very limited form**: paying per diems for hospitalization	▪ **No private tier of insurance** that would encourage more advanced provision of healthcare services, and also **help fund more spending** on healthcare

SOURCE: WHO; World Bank; McKinsey analysis

FUTURE ROLE OF INSURANCE

In Asia Pacific, private insurance currently has a limited role compared with public schemes and tax-funded provider system

NOT EXHAUSTIVE

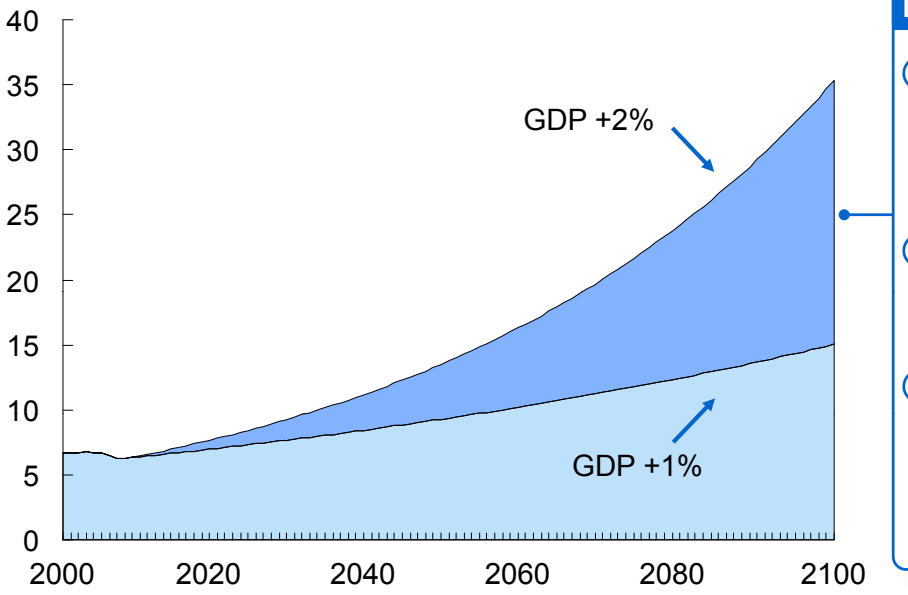
	Countries	Major payment archetype	PHI % of 2009 THE	Achievements & challenges
Developed	Japan	▪ 3 major government insurance schemes	2.6%	▪ Universal coverage ▪ Insufficient private funding and involvement putting significant funding strain on social pool
	Australia	▪ 1 major government scheme (Medicare)	8.3%	▪ Universal coverage ▪ Government introduced significant incentives for private insurance uptake
	Singapore	▪ Heavy subsidy to public hospitals ▪ 3 layers of public schemes	1.6%	▪ Universal coverage ▪ Innovative financing scheme with Medisave to encourage individual/family responsibility
Emerging	China	▪ 3 major government schedules (1 mandatory)	3.1%	▪ 95% coverage, low reimbursement ▪ Complex governance system
	Malaysia	▪ Tax-based public system	8.0%	▪ Universal coverage ▪ Barriers in financing reform to create public health insurance
	Thailand	▪ Multiple public insurance schemes	5.9%	▪ Universal coverage ▪ Disparity between schemes leading to cost containment on CSMBS scheme
Developing	Indonesia	▪ Complex payment schemes due to decentralization	1.8%	▪ Low financial protection and effective coverage due to low government subsidy
	Vietnam	▪ 1 major mandatory scheme	1.8%	▪ En route to universal coverage ▪ Significant gaps in reimbursement and financial protection

SOURCE: WHO; World Bank; McKinsey analysis

FUTURE ROLE OF INSURANCE

In the future, further constraints on public spending will create a window of opportunity for the private sector

Healthcare as % of GDP, Asia-Pacific[2]



How to satisfy…

1. Increasing demand on technological innovation and specialization
2. Higher customer expectations and willingness to pay
3. Aging population with chronic diseases with different healthcare needs

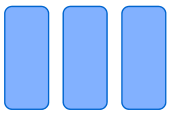
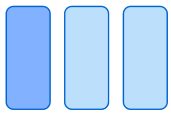
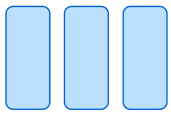
1 1995-2009 CAGR: GDP = 4.13%, Healthcare spending = 4.49%; If excludes Japan: GDP = 9.55%, Healthcare spending = 11.25%;
2 Includes 13 major countries: Australia, Cambodia, China, Indonesia, Japan, Korea (South), Laos, Malaysia, New Zealand, Philippines, Singapore, Thailand. Vietnam

SOURCE: World Bank; McKinsey analysis

FUTURE ROLE OF INSURANCE

Selection of different private payor archetype will depend on the overall reform objective and priority actions

Private
Public

Payor model					
Description (patient view)	▪ Single, state-mandated payor	▪ Multiple state-mandated payors with minimal private sector	▪ State-mandated payor(s) with supplementary private payors	▪ State payors with competing private payors	▪ Multiple private payors only
Country example	▪ Canada	▪ Thailand ▪ Egypt	▪ China, Taiwan ▪ Australia ▪ United Kingdom	▪ Germany ▪ Chile ▪ United States	▪ Jamaica ▪ Trinidad and Tobago
Pros	▪ Greatest solidarity ▪ Concentration allows greater bargaining power and maximum risk pool	▪ Enables choice among plans with different benefit design (vs. one state payor) ▪ Easier transitions to other models	▪ Combines a core of mandated provision with optional top-ups ▪ Fosters public-private partnership	▪ Payor of last resort ensures coverage ▪ Likely pushes innovation with competition	▪ Competition drives responsiveness and innovation
Cons	▪ Lack of competition potentially hinders innovation and responsiveness	▪ More complex, more difficult to manage (e.g., harder for patients to navigate) ▪ Creates additional complexity in cross-subsidizing	▪ Overlap of benefit package may result in excess cost, inefficiencies ▪ Potential gaps in key coverage for many people (dental, eye care)	▪ Central state payor tends to be left with higher risks ▪ Duplication of overhead for providers and regulators	▪ Risk selection: to ensure coverage, risk-equalization mechanisms needed ▪ Duplication of overhead ▪ More complex

SOURCE: McKinsey analysis

FUTURE ROLE OF INSURANCE

Beyond the typical role of an insurer, private insurers can play an increasing role in vertically integrating healthcare provision

	Unmodified systems managed by care providers	(Internal) markets and competition	Fully committed consumers
	Payor only ▪ Finances health care	**Network manager** ▪ Develops a quality- and value-based care provider market ▪ Develops clinical leadership	**Disease-management facilitators** ▪ Works with patients, the public, and main stakeholders to – Help patients take informed decisions – Improve health results – Make people aware of value
Focus	▪ Costs	▪ Costs ▪ Quality	▪ Quality ▪ Demand
Key skills	▪ Operating efficiency	▪ Market management ▪ Quality improvement	▪ Consumer commitment ▪ Partnership-based work
Country examples	▪ Most countries in Asia Pacific ▪ France	▪ Sweden ▪ Denmark	▪ Germany ▪ Netherlands ▪ United Kingdom

SOURCE: McKinsey analysis

FUTURE ROLE OF INSURANCE

In all situations, a strong regulatory framework is necessary to ensure the role of private insurance is aligned with the national objectives

Regulation	Description	Impact
Fixed premiums for basic coverage	▪ Level of insurance premium is set by government ▪ Market mechanisms determine premium for non-basic coverage	▪ Insurers are forced to compete on care quality and cost ▪ Avoid price wars between insurers with potentially negative effects on quality
"Acceptance obligation"	▪ Legal obligation for insurer to accept every patient regardless of age or pre-existing condition[1]	▪ Makes direct risk selection illegal ▪ Insurance companies can still use indirect methods to influence market share (e.g., preferential treatment, targeted campaigns)
Risk equalization fund	▪ Risk-equalization fund reimburses insurance companies for each high-risk patient it covers	▪ Cancel out financial incentive to selectively target lower-risk populations

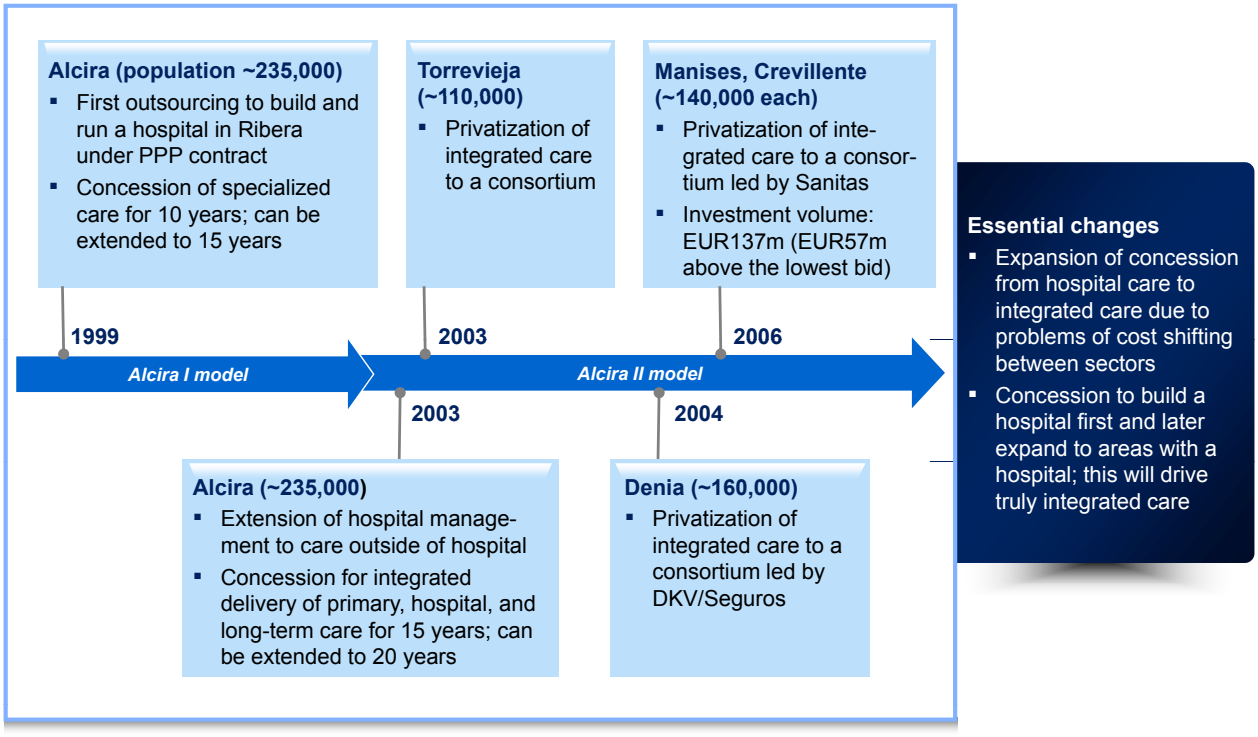
There can be no discrimination if you're ill or old or young. We have to accept everybody
– Roger Van Boxtel, CEO, Menzis (private insurer)

1 As determined in the 2006 Health Insurance Act

Sources: PBS; McKinsey analysis

FUTURE ROLE OF INSURANCE

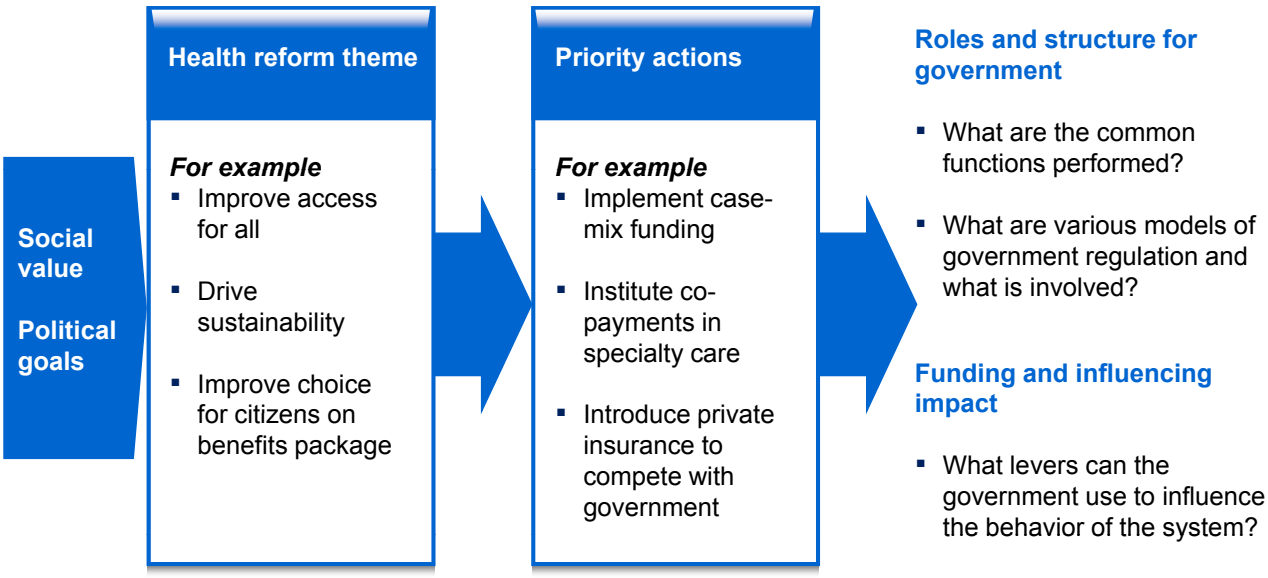
In Valencia, 5 subregions covering 20% of the population have been successfully outsourced to private consortia



SOURCE: Observations; Health Policy Monitor; McKinsey analysis

FUTURE ROLE OF INSURANCE

Decision to significantly reform the insurance and payment structure will ultimately depend upon the local context, social value, and political goals



SOURCE: McKinsey analysis

Summary of learnings

1. Public insurance is important to ensuring broad coverage and thus broad access to health care, at affordable rates
2. Co-payments need to be very high to change behaviors – so high that the value of insurance becomes questionable
3. Private insurance can supplement public insurance by encouraging greater advancement in care, and drawing more funding into the healthcare system
4. Private insurance on its own will only achieve broad-based access to cost-effective care if mandatory and well regulated
5. Health insurance reform must go hand-in-hand with payment reform to effectively ensure quality and sustainability are being addressed
6. Regulatory oversight is critical to ensure behaviors of private insurers and other healthcare stakeholders are aligned with the system's overall objectives

SOURCE: McKinsey analysis