



Health Insurance and Pilot Tax Incentive Programme in China

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Hong Kong, 19 June 2018

Agenda

The background of the slide features a composite image. On the left, there are silhouettes of four business professionals: two men shaking hands, a man on a mobile phone, and a woman walking. The background is a bright, hazy city skyline with tall buildings, overlaid with a grid pattern and some abstract light effects.

01 **Background**

02 Tax Deductible Health Insurance

03 Implications and Considerations

Healthcare System in Mainland China



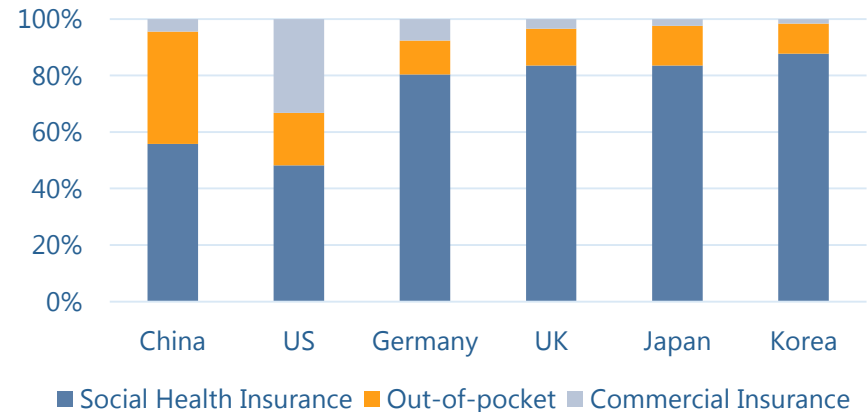
Social Health Insurance Program (SHIP)			Commercial Insurance		
Urban Employee Basic Medical Insurance (UEBMI)	Urban Residents Basic Medical Insurance (URBMI)	New Rural Cooperative Medical System (NRCMS)	Urban and Rural Residents Serious Illness Insurance	Enterprise subsidiary medical insurance	Personal health insurance
1.3 billion+, 95%+ coverage rate			>1 billion	Est. < 10%	
% of pretax payroll Employer: 6% Employee: 2%	Government funded: RMB 420/person + Personal payment: RMB 90~180/person		URBMI & NRCMS fund	Employer funded	Personal payment
State Safety Net: Medical Financial Assistance Program/Donation					

Healthcare System in Mainland China



- Universal coverage:
 - More than 1.3 billion participants
 - Exceeding 95% of population since 2011
- High out-of-pocket spending (2013)
 - USD 636~886 in urban and USD 348 in rural
 - 34% of total expenditure

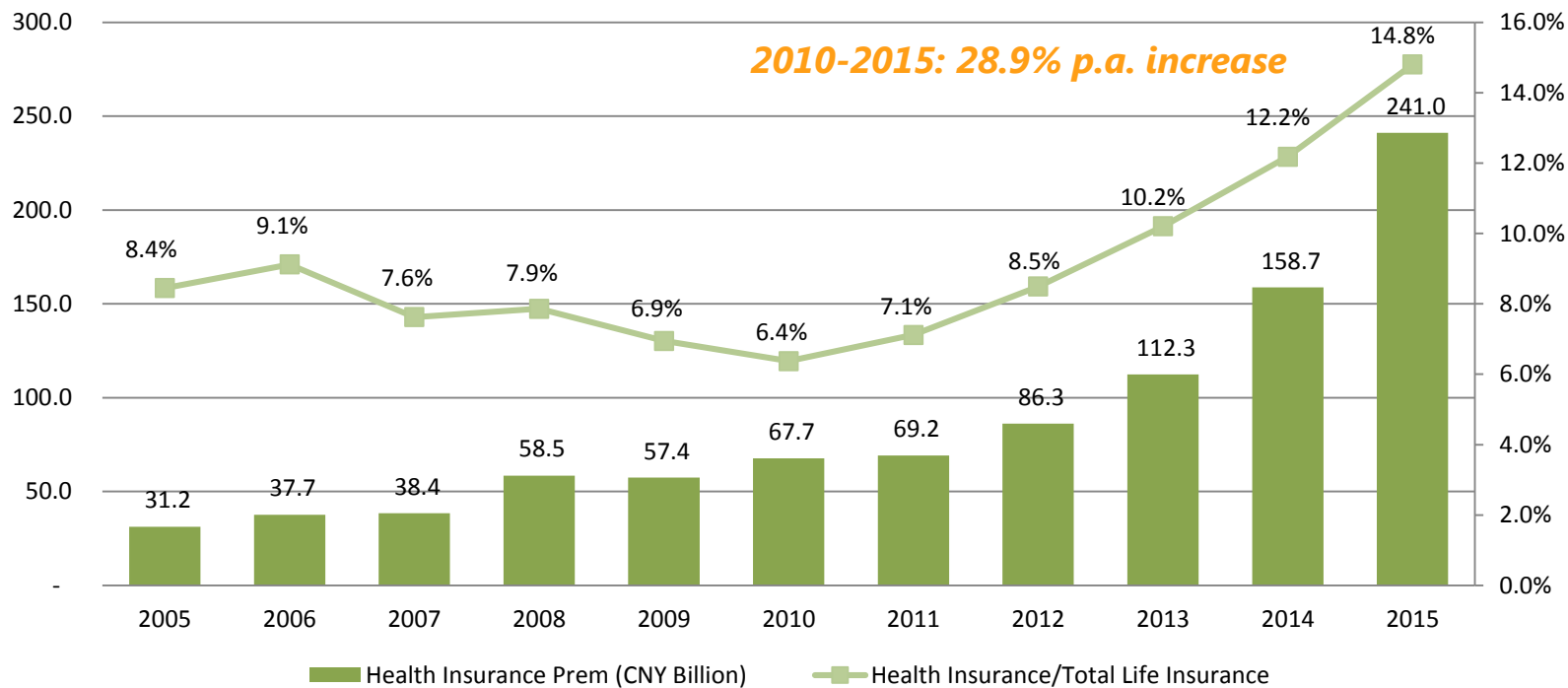
Medical Expenditure Structure 2014 by Country



Private Health Insurance Market



China Health Insurance Premium Volume



Source: CIRC statistics

A New Five Year Road-map for Healthcare System Reform (2015-2020)



Infrastructure development

- Opening access for private investors to develop private hospitals.
- Increasing the number of hospital beds across all medical institutions to alleviate burden on public hospitals.
- Standardising training for medical professionals and improving allocation of resources.
- Continued development of medical facilities at grassroots level and in rural areas.
- Encouraging development of private senior care facilities and home care services.



Reducing costs and broader insurance coverage

- Reducing patients' out-of-pocket expenses through restrained use of medical devices, and if medical devices are required to be used, using locally manufactured devices.
- Developing comprehensive medical insurance with better coverage.
- Expanding the scope of practitioners' insurance and establishing a dispute resolution mechanism.



New areas of investment

- Establishing traditional Chinese medicine hospitals at the county and municipal level.
- Investing in technology for online healthcare products and information sharing on cloud systems.

Source: Norton Rose Fullbright, *China new healthcare reform 2020*

Agenda

The background of the slide features a blurred, high-angle view of a modern office interior. In the foreground, the silhouettes of four business professionals are visible against a bright, glowing light source, likely a window. From left to right: a man in a suit is shaking hands with another man in a suit; a man in a suit is talking on a mobile phone; and a woman in a business suit is walking. The office floor is highly reflective, mirroring the silhouettes of the people. In the background, a city skyline with several skyscrapers is visible through the glass walls of the office.

01 Background

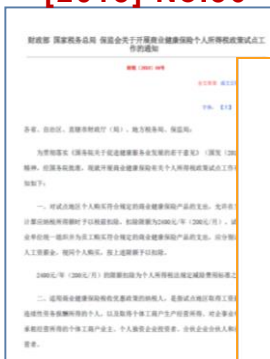
02 **Tax Deductible Health Insurance**

03 Implications and Considerations

Programme Highlights



May 2015 MOF
[2015] No.56



Aug 2015 CIRC
[2015] No.82



中国保险监督管理委员会文件

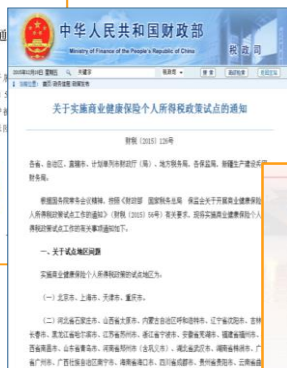
保监发〔2015〕82号

**中国保监会关于印发《个人税收
优惠型健康保险业务管理暂行办法》的
通知**

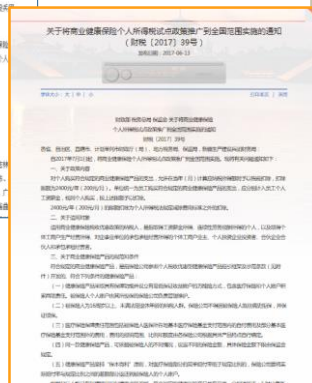
各保监局，各人身保险公司：
为贯彻落实财政部、国家税务总局、保监会《关于开展健康保险个人税收优惠政策试点工作的通知》（财税〔2015〕59号）精神，促进个人税收优惠型健康保险业务健康发展，保护消费者的合法权益，我会研究制定了《个人税收优惠型健康保险业务管理暂行办法》，现予印发，请遵照执行。



Nov 2015 MOF
[2015] No.126



April 2017 MOF
[2017] No.39



1 Jan 2016: Pilot Programme

1 Jul 2017: Countrywide implementation

- Government Guidance
 - Government support
 - Unified platform
 - Enjoys tax subsidiaries
- Quasi-Social Public Welfare
 - Protection focus
 - Slim-profit operation
 - Return of profit
- Model Clauses
 - Clause guidance
 - Product review and approval
 - Exclusive product

Regulatory Framework



Eligible taxpayers ...

will be able to claim up to **RMB 2,400** per year (RMB 200 per month) in **individual income tax deductions** in respect of premiums paid for

Qualified products

providing medical cost insurance, based on the **model provisions** and consistent with **specified product features**, issued by...

Qualified insurers

with minimum **solvency** requirements, who has set up specialized **health insurance department**, supported by specified professionals and special health insurance IT system.



Product Features



The “medical insurance+universal account” design provides protection and savings

Protection

Protection against
medical risk

Reimburse of out-of-pocket
medical expense.



Savings

- Fund accumulation, **savings & investment**
- Acts as a “2nd SHIP individual account”
- **No initial charge**, guaranteed return of **2.5%-3%**



- Policyholders can choose to pay flexible premiums according to his/her financial situation, minimum amount required is the risk premium and excess of payment goes to the universal account;
- The universal account can be used to pay for individual’s out-of-pocket costs after SHIP or premium of private health insurance **after retirement**.

Programme Highlights



Main Features of Medical Insurance

Coverage Period	1 year, regulated in accordance with long term health insurance
Product Type	Medical reimbursement product
Guaranteed Renewability	Guaranteed to be renewal to retirement age (up to age 65); During the period of guaranteeing the renewal of insurance, shall not refuse to renew the policy for a life assured's health condition.
Pre-existing Conditions	Shall not refuse to insure the insured for his/her pre-existing conditions. For a substandard-risk life insured, the insured amount may be reduced appropriately.
Waiting Period	No waiting period.
Scope of Drug	Extension to the catalog outside the coverage scope of SHIP
Return of Balance	Where a loss ratio is lower than 80%, the excess profit thereof shall be returned to the individual accounts of the insured.
Payment Ratio	Overall payout ratio of medical cost shall not be lower than 90%. Where a payout ratio is lower than 90%, 90% of medical cost shall be paid.

Product Features



Three product types, meeting all types of differentiated insurance needs

Type A

- ✓ Target taxpayers with SHIP
- ✓ Comprehensive protection
- ✓ Moderate premium

→ Highly recommended for all types of employees and taxpayers

Type B

- ✓ Target taxpayers with SHIP
- ✓ Protection for high amounts of medical expenses
- ✓ Lower premium

→ Suitable for younger age groups and the high risk tolerance group

Type C

- ✓ Target taxpayers without SHIP
- ✓ Protection same as Type A
- ✓ Expensive premium

→ Cater to the needs of the minority group without SHIP

Benefits Covered



4 broad categories of benefits covered: comprehensive protection and high payout

- **Hospitalization expenses**

- ✓ Including drugs, surgical cost, room & board and other costs

- **Specific outpatient treatment cost**

- ✓ Including cost of chemotherapy & radio therapy for cancer, hemodialysis & peritoneal dialysis, and anti-rejection after kidney transplantation



- **Outpatient before/after inpatient cost**

- ✓ Cover outpatient cost 7 days before/30 days after inpatient

- **Chronic disease outpatient cost**

- ✓ Including outpatient cost of diabetes, hypertension and coronary artery disease

Benefits Covered



High SA: set two levels of SA based on life assured's health condition

SA limit Table

Benefits		Assured group	
		Without pre-existing conditions on 1 st time purchase	With pre-existing conditions on 1 st time purchase
Reimbursement of medical expenses	Lifetime limit	800K	150K
	Annual limit	200K	40K
(a) Hospitalization expenses, outpatient before/after inpatient cost	Annual limit	200K	40K
Out of (a), material cost		30K	5K
(b) Specific outpatient treatment cost		20K	5K
(c) Chronic disease outpatient cost (not covered by Type B)		3K	1K

Benefits Covered



High SA: set two levels of SA based on life assured's health condition

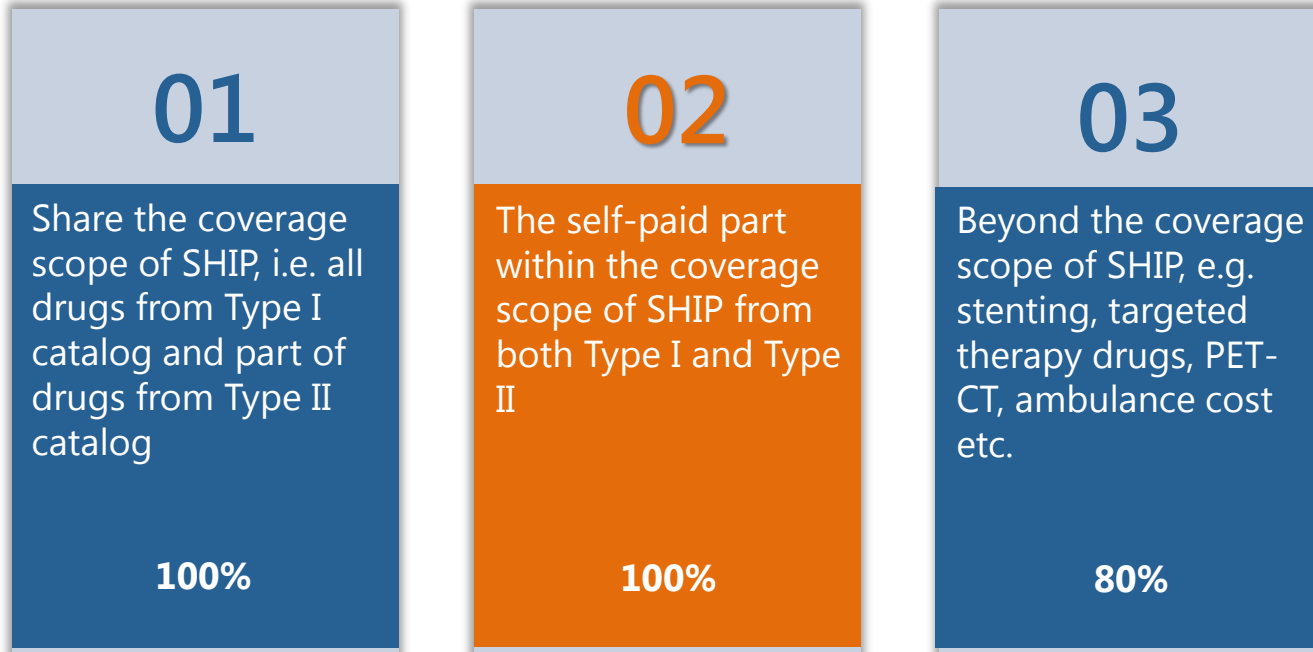
SA limit Table

Benefits	Assured group	
	Without pre-existing conditions on 1 st time purchase	With pre-existing conditions on 1 st time purchase
Reimbursement of medical expenses	<ul style="list-style-type: none"> For substandard-risk applicants, the SA limits for first year and renewal years are all largely lower than the SA limits for the healthy group. For standard-risk applicants, the SA limits for renewal years are same as the standard-risk level. Substandard-risk applicants can be adjusted to standard risk on renewal, subject to underwriter's approval. 	
(a) Hospitalization expenses, outpatient before/after inpatient cost		
Out of (a), material cost		
(b) Specific outpatient treatment cost		
(c) Chronic disease outpatient cost (not covered by Type B)		

Benefits Covered



Scope of coverage: the overall payout ratio cannot be lower than 90%

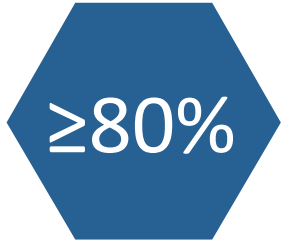


Standard reimbursement order: local SHIP/Public healthcare → enterprise supplementary health insurance (if any) → tax deductible health insurance

Benefits Covered



Return of profit and payout ratio



- Return of profit
 - Loss ratio cannot be lower than 80% (calculated based on the overall medical portfolio)
 - If lower than 80%, the excess profit thereof shall be returned to the individual universal accounts of the insured.



- Minimum payout ratio
 - Payout ratio of medical cost cannot be lower than 90%, where a payout ratio is lower than 90%, 90% of medical cost shall be paid.

Insurance Plans



Multiple plans available based on financial capabilities and needs

01

- **Policy Effectiveness Optimization**

- ✓ RMB 2,400 per person per year
- ✓ Remaining amount a/f deducting risk premium goes to the universal account

02

- **Protection + Investment**

- ✓ Premium = Risk Premium + Invested Amount of Universal Account
(Note: universal account is for use after retirement)

03

- **Basic Protection**

- ✓ Only pay risk premium
- ✓ Universal account not available temporarily

Agenda

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01 Background

02 Tax Deductible Health Insurance

03 **Implications and Considerations**

Implications

To tax-payers/ insured lives



Pros

- Individual tax **subsidiary**
- Cover medical cost **out of SHIP** catalogue
- **Reduced** out-of-pocket medical expense
- **Guaranteed** coverage until retirement age
- **Savings** account for after retirement medical cost...
- ... with long term guaranteed **investment** return
- **Sub-standard risks** can be covered

Implications

To tax-payers/ insured lives



Cons

- Limited eligible persons
- Limited tax incentive
- Mostly **target** employers rather than individuals
- Individual tax deduction process relatively **complicated**
- Limited usage of the **universal account**

Monthly taxable income (RMB)	Tax rate	Tax deducted (Annual)
<3,500	0%	0
<5,000	3%	72
<8,000	10%	240
<12,500	20%	480
<58,500	30%	720
<83,500	35%	840
>=83,500	45%	1,080

➔ >80%

Implications



To insurance companies – promote awareness of private health insurance

Cost



- Allow for **20% expense loading**
- Out of 80% claim ratio, allow for **20% health management fee**

- Interest margin comes from the **investment return** of unearned premium reserve and universal account



Interest Margin

Universal Account



- Universal account is kept for **long term**
- Act as **a sustainable LT regular premium business**, which allows a life assured to buy **commercial insurance** after retirement

- Acquire customers from tax deductible health insurance
- **Cross-selling**



Customer Acquisition

Implications



To insurance companies – higher risk management capability requirement

Cost



- **Loss** is at insurer's own risk ...
- ...whereas profit shall be returned

- **Non-disclosure** of pre-existing condition
- Challenges on **pricing basis** for substandard risks



Risk identification

Operation



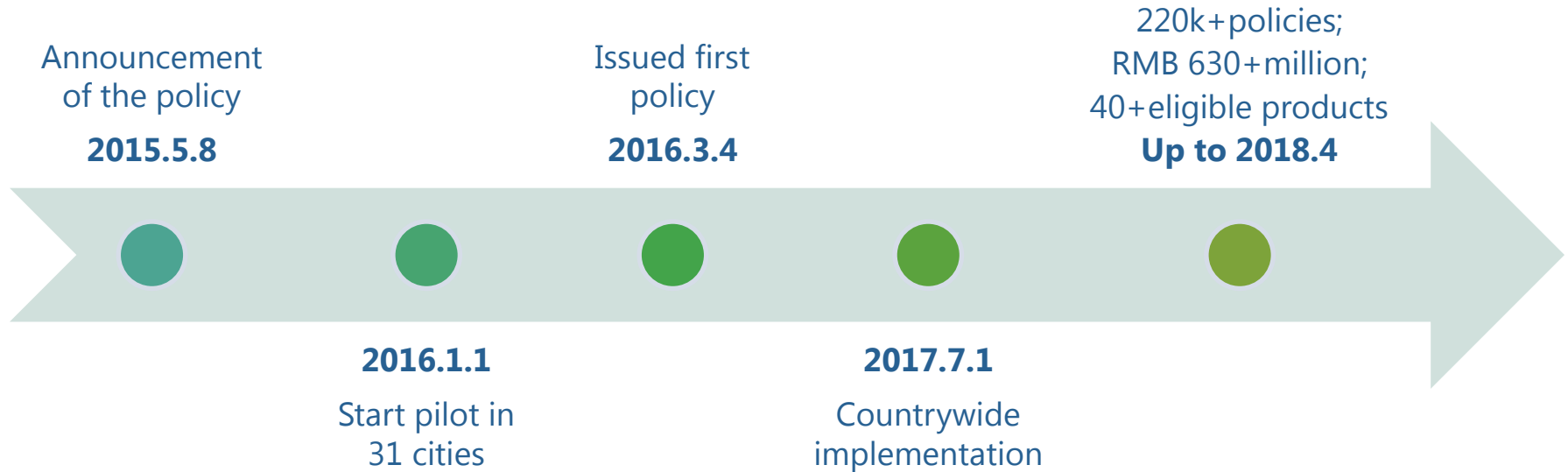
- Ability to provide health management service
- Profit return and minimum payment ratio

- Fast development of medical insurance during the same period
- Evolution of customer demands



Product development

Up to Now



What's the Next



- Increase the utilization of health management service
- Enlarge risk pool and further risk spread
- Market segmentation
 - differentiate products and benefits
- Enhance risk management capability
 - Extinguish pre-existing conditions: pre-underwriting and risk classification
 - Better claim management: cooperation with hospitals/social health insurance system
- Improvement of the process
 - Further cooperation between tax authorities and insurance industry



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