

## HEALTHCARE FINANCING AND REIMBURSEMENT: A GLOBAL REVIEW OF MAJOR TOPICS AND TRENDS

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## LAWS AND REGULATIONS ON HEALTHCARE FINANCING AND REIMBURSEMENT

### 1. Please provide a bird's eye view on the healthcare economy, indicating, in general terms, the role of the government (public healthcare) and private actors (private healthcare).

Public healthcare in China is primarily divided into two categories: Employee Medical Insurance (EMI) and Resident Medical Insurance (RMI). EMI is a mandatory social insurance programme for employees, funded by both employers and employees, covering a broad spectrum of medical expenses with a dual structure of individual accounts for routine expenses and pooled funds for significant health events. RMI caters to urban and rural residents outside the formal workforce, including children, the elderly, students and the unemployed, and is financed through government subsidies and personal contributions, offering basic medical coverage with a focus on essential health services and protection against catastrophic illnesses. Together, these two systems constitute China's basic medical insurance system to ensure that healthcare is accessible and affordable for all segments of the Chinese population.

The National Healthcare Security Administration of China (NHSA) is responsible for formulating and implementing medical insurance policies, managing EMI and RMI funds, setting drug and medical service pricing policies, overseeing the procurement of drugs and medical consumables, managing service and payment for designated medical institutions, and advancing the construction of medical insurance information systems. The NHSA and other government departments work together to ensure the stability and efficiency of China's healthcare security system.

NHSA data shows that, as of the end of 2023, aggregate participants of EMI and RMI covered a population of 1,333.89 million, accounting for more than 95 per cent of the Chinese population.

Private healthcare is mainly provided through commercial medical insurance. Commercial medical insurance is supplementary to the EMI and RMI. Employees and citizens can voluntarily purchase commercial medical insurance to obtain more comprehensive medical insurance coverage. It is also common that employers purchase commercial medical insurance for their employees as additional employee benefits.

### 2. Please provide a high-level overview of the legal framework regarding healthcare financing and reimbursement.

The legal framework for healthcare financing and reimbursement in China is composed of multilayered laws and regulations. At the national level, laws such as the Social Insurance Law of the People's Republic of China and Basic Medical and Health Promotion Law of the

People's Republic of China lay the foundation for social insurance systems, including medical insurance, outlining the rights and obligations of individuals and employers regarding insurance contributions and benefits, of government agencies regarding the medical insurance policy and reimbursement mechanism, and of healthcare institutions regarding the provision of healthcare services. The Opinions on Integrating Urban and Rural Resident Basic Medical Insurance Schemes published by the State Council integrate basic medical insurance for urban and rural residents, unifying coverage, financing policies and benefit levels. These laws and regulations establish the basis for the healthcare financing system, ensuring access to basic medical services for citizens and defining the state's role in creating and maintaining a basic healthcare system and service network.

Administrative regulations, decrees, policies and guidelines at the ministerial level and local level play a supplementary role to national laws.

### **3. Has there been a change to healthcare financing and reimbursement as a consequence of the Covid-19 pandemic?**

Yes, the Covid-19 pandemic has brought about notable impacts on and transformations to healthcare financing and reimbursement in China.

In various stages of the pandemic, the Chinese Government provided free Covid-19 testing services to the entire population, especially in areas with more severe outbreaks, where mass free nucleic acid testing was organised. Qualified Covid-19 drugs are admitted to the National Reimbursement Drug List (NRDL) through an expedited pathway. Basic medical expenses for hospitalised Covid-19 patients were fully subsidised by social health insurance and public finance, alleviating the financial burden on those affected. China also implemented a policy of free Covid-19 vaccinations for all, with all costs borne jointly by national finance and medical insurance funds. As a result, the government's fiscal outlay on healthcare experienced a significant increase in response to the pandemic's effects in reaction to the Covid-19 pandemic.

The Covid-19 pandemic also catalysed upgrades to the healthcare regulatory regime, improvements to healthcare infrastructure and medical supply, and uses of online healthcare models to meet the urgent demands that may arise from similar pandemics in the future. For example, telemedicine and online pharmacy have been used more frequently since the pandemic. Patients now have easier access to online outpatient medical services for common and chronic diseases through internet hospitals.

### **4. Who has access to the healthcare system as a patient on the one side and as a medical service provider/supplier of medical goods on the other side? What are the conditions of admission?**

In China, access to the healthcare system is quite comprehensive and inclusive.

For patients, the basic healthcare system is accessible to all residents, regardless of age, nationality or residence status. China's basic medical insurance system ensures equal access to healthcare services for all residents, including foreign nationals subject to certain conditions. As discussed above, EMI is accessible to employees, while RMI is accessible to other citizens.

For medical service providers, the healthcare system distinguishes between public and private medical service providers. Public hospitals are generally designated as medical insurance service sites, which means they can directly provide services to insured patients, and patients

can reimburse a portion or all of their medical expenses. Private hospitals, including those wholly owned by foreign investors, need to apply to become medical insurance service sites. Not all private hospitals are medical insurance service sites; they must meet certain conditions, including implementing unified medical service price items, pharmaceutical service price policies and medical security coverage, to apply for the designation. The NHSA treats medical institutions of different ownership forms equally, and welcomes and supports eligible medical institutions at all levels to become medical insurance service sites.

For suppliers of medical products, including those of pharmaceuticals, vaccines, medical devices and medical consumables, first, they need to apply to the National Medical Product Administration (NMPA) to obtain marketing authorisation for their products. For qualified patented drugs (originators), suppliers can apply to the NHSA and negotiate with the NHSA for a reimbursement price in exchange for access to the NRDL. For generics and other medical products with adequate suppliers, the NHSA has implemented a volume-based procurement (VBP) scheme. This scheme aims to reduce the prices of drugs and consumables through pre-committed bulk purchases, while ensuring the quality and supply of the products. For medical devices, medical institutions organise procurement through tendering and bidding, or other competitive negotiation process. Through these schemes, public healthcare can include more innovative drugs and essential medicines and offer medical products to the public at a reasonable price.

## **HEALTH INSURANCE FINANCING AND COVERAGE**

### **5. How are health insurance carriers financed? How are premiums determined?**

Health insurance carriers in China are financed through a mix of mandatory and optional insurance schemes. Mandatory insurance, which is basic medical insurance, is funded by a combination of individual and employer contributions, as well as government subsidies. The contribution standard strikes a balance between affordability and the financial needs of pooled funds. In particular, RMI is typically collected annually, with the individual contribution standard being around RMB 400 (\$55) per person per year, although the exact amount may vary by region and be adjusted from time to time. EMI is jointly contributed by employers and employees, usually on a monthly basis. Employers pay a certain percentage (between six per cent and ten per cent) of the total salary of their employees as medical insurance fees, while employees pay a certain percentage (typically two per cent) of their salary as medical insurance fees. The maximum payment limit for medical insurance varies by region, but it is generally three times the local average salary, multiplied by a locally applicable payment percentage. This system ensures broad coverage and equal access to healthcare services for all residents.

Additionally, there is a market for voluntary commercial health insurance, which is financed by premiums paid by individuals seeking additional coverage beyond basic insurance. The determination of premiums for commercial health insurance is a process that takes into account a variety of factors. These include the policyholder's personal characteristics, such as age, gender and occupation, as well as the chosen insurance amount, the rates set by the insurance company, the duration of insurance, the scope of coverage and terms of the policy, and statistical data based on historical claims and risk assessments.

### **6. How is the coverage of medical services by health insurance carriers regulated? Are there differences in coverage for in-person medical appointments and**

### telemedicine appointments?

The NHSA is the provider of basic healthcare and defines the coverage of basic medical insurance.

Commercial medical insurance is provided by various health insurers. These insurers and their medical insurance products are regulated by the National Financial Regulatory Administration, supported by NHSA, the National Health Commission (NHC) and other regulators.

In China, telemedicine is supplementary to in-person medical services. The scope of telemedicine services is usually limited to certain chronic or common diseases. The coverage for in-person visits and telemedicine appointments is essentially the same. The NHSA has clearly stated that 'Internet Plus' medical insurance payments adopt a consistent reimbursement policy for both online and offline services. This means that eligible online medical institutions (also known as 'internet hospitals'), through their underlying physical medical institutions, can voluntarily sign up to be included in the designated medical insurance institutions. The consultation service fees and medication costs incurred by insured individuals at 'internet hospitals' can be paid according to local medical insurance regulations, maintaining consistency with offline outpatient reimbursement policies.

## HOSPITAL SECTOR

### 7. How are services provided by hospitals in the stationary (inpatient) and ambulatory (outpatient) settings financed and reimbursed?

In China, medical services and medication costs incurred in both stationary and ambulatory settings can be reimbursed under the public healthcare programme, as long as the hospitals are registered as medical insurance service sites. If patients maintain commercial insurance, costs that are not covered by the public healthcare programme can be covered by commercial insurance, subject to limitations.

The reimbursement rates and ceilings for inpatient services are usually higher than those for outpatient services.

### 8. How are the prices of such services determined? How is economic efficiency controlled?

In the reform of China's medical service pricing, the medical insurance catalogue plays a significant role. The medical insurance catalogue determines which services can be covered by the medical insurance fund and the standards of payment, which directly affect the pricing of hospital services. Additionally, China has established a dynamic adjustment mechanism for medical service prices covered by medical insurance. In 2023, 28 provinces carried out pricing adjustments, with over 1,900 new medical service price items reviewed and added throughout the year.

As for medical services that are not covered by public medical insurance, such as very important person (VIP) medical services, cosmetic dental services and medical beauty, private medical institutions may determine the service prices at their discretion, while public medical institutions may determine the service prices within the parameters set by the regulatory authorities.

In China's healthcare system, economic efficiency is managed through a combination of strategies, including the NRDL negotiation and VBP scheme, which effectively lowers the prices of medical products and enhances their availability. Furthermore, China has introduced innovative payment methods based on outcomes, such as diagnosis-related groups (DRG) and the diagnosis-intervention packet (DIP), which are designed to rationalise the allocation of medical resources and improve the efficiency of healthcare funding. Alongside these measures, China continues to reform its healthcare payment methods, including the expansion of total budget control and differentiating basic healthcare and high-end healthcare, to optimise the use of healthcare funds and alleviate the financial burden on patients.

## HEALTHCARE PROVIDERS IN PRIVATE PRACTICE

### 9. How are services provided by physicians, therapists, laboratories and other service providers financed and reimbursed?

Physicians, therapists, laboratories and other service providers must practice medical services in licensed medical institutions, including hospitals and clinics. Their services are regarded as medical services rendered by medical institutions in the ambulatory/outpatient setting (see questions 7 and 8). These professionals are compensated by the medical institutions they are affiliated with, and compensation takes into account their seniority, academic contributions and work performance.

### 10. How are the prices of such services determined? How is economic efficiency controlled?

Prices of such services are set, and their economic efficiency is controlled in the same way as medical institutions in the ambulatory/outpatient setting (see questions 7 and 8).

## PHARMACEUTICALS AND MEDICAL DEVICES

### 11. How are pharmaceuticals and medical devices financed and reimbursed?

Pharmaceuticals and medical devices in China are financed and reimbursed through a complex system that involves both government policies and market mechanisms. Key government agencies, such as the NHSA, NHC and pricing departments of the National Development and Reform Commission, play pivotal roles in this process. NHSA regularly updates the NRDL and the national reimbursement medical consumables list. Drugs and medical consumables falling into the lists are reimbursed under RMI or EMI programmes.

In relation to medical devices that are not consumables, hospitals typically procure them through tendering and bidding or other competitive negotiation process. Funding for procurement can either be from the operational income of hospitals or public finance.

### 12. How are the prices of pharmaceuticals and medical devices determined? How is economic efficiency controlled?

In China, pharmaceuticals are categorised into patented drugs (originators) and generics. As discussed above, the NHSA has been using price negotiations for access to the NRDL to reduce the price of patented drugs. NHSA and provincial governments also set up medical product tender bidding centres, which use VBP schemes and other centralised procurement

schemes to select generic drugs and medical devices based on quality and price.

## LITIGATION INVOLVING HEALTHCARE FINANCING AND REIMBURSEMENT

### 13. Please provide a high-level overview of major litigation topics and landmark cases regarding healthcare financing and reimbursement.

In China, litigation is not a frequently used means to resolve disputes in healthcare financing and reimbursement. Suppliers and other stakeholders typically use more amicable measures such as consultations, appeals and reporting to resolve disputes.

In 2024, a criminal investigation case attracted substantial publicity. Certain medical representatives and management personnel from a major pharmaceutical company, with support from certain subcontractors, altered the genetic test results of patients from negative to positive, allowing patients who did not meet the conditions for medical insurance reimbursement to purchase its drug through medical insurance reimbursement, thereby illegally obtaining medical insurance funds. These individuals were later subjected to criminal charges and sentenced with prison terms.

## RECENT DEVELOPMENTS AND TRENDS

### 14. What are the recent developments and trends for the next few years? Please outline any unresolved issues, proposed changes or trends for healthcare financing and reimbursement, and briefly indicate how these may foreseeably affect the medical sector in the near future.

Looking ahead, China's healthcare financing and reimbursement system is expected to address several unresolved issues and embrace new changes.

In recent VBP, some extremely low drug prices have emerged, causing public doubts about the safety and efficacy of the drugs. While regulators publish data to reassure the public on the safety and efficacy of the drugs procured under VBP, there are still concerns that extremely low drug prices are detrimental to ensuring the quality of the drugs. The government needs to strike a better balance between price and quality.

Another challenge is the shrinking profit margin suffered by biotechnology companies (biotechs), biopharmaceutical companies (biopharmas) and other medical product suppliers, despite the high R&D costs to commercialise their products. The reduced margin is partly attributable to the low price realised in the NRDL negotiation and VBP programme. The pharmaceutical industry is calling for various payment sector reforms, including cultivating a commercial health insurance market to meet the increasing demand on quality medical products on the one hand and providing pharmaceutical companies with a reasonable profit margin on the other. In order to develop the commercial health insurance market, regulators need to share more clinical data, improve the rules of the NRDL negotiation and VBP programme, and make it easier for medical products not reimbursed under public healthcare programmes to access the hospital market.