Embrace Healthcare Revolution
Strategically moving from volume to value
# Present state and future trend of China healthcare industry

Demand upgrade drives the healthcare industry to transform from "medical services-focused" to "health services-focused"

The focus of the healthcare reform shifts from "cost control" to "optimizing and balancing medical resources"

Public hospitals reform and private hospitals thrive

The digital revolution driving China's healthcare sector reform

Deloitte LSHC contacts

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Present state and future trend of China healthcare industry

"Healthy China 2030" strategy depicts the blueprint of big health industry
In October 2016, the State Council released the Outline of the Plan for "Healthy China 2030", depicting the blueprint of big health industry. The "Healthy China 2030" strategy sets goals on the scale of the healthcare industry, specifies many key indicators for "Healthy China" construction, and raises the requirements on healthcare services. "Healthy China" strategy will serve as an important guideline for developing China's healthcare industry in the next 15 years with the theme of co-building, sharing and achieving nation-wide health based on the principles of health first, reform and innovation, scientific development and fairness and equality.

Status quo and trend predictions of total health spending and its percentage in GDP
In 2016, China's total health spending reached RMB4.6 trillion, occupying 6.2% of the total GDP. As proposed during the "12th Five-Year Plan" period, the total health spending will exceed RMB6.5 trillion by 2020, accounting for 6.5% to 7% of the total GDP.

Figure 1: Trends and predictions of the total health spending
RMB100 million

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<th>Year</th>
<th>Total Health Spending (RMB)</th>
<th>Percentage in GDP</th>
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<tr>
<td>2013</td>
<td>30,000</td>
<td>1.00%</td>
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<tr>
<td>2014</td>
<td>35,000</td>
<td>1.50%</td>
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<tr>
<td>2016</td>
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<td>2017F</td>
<td>50,000</td>
<td>3.00%</td>
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<td>2019F</td>
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<tr>
<td>2020F</td>
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<td>4.50%</td>
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Source: National Bureau of Statistics (NBS), Deloitte Research
Structures and changing trends of medical security system

Over the past several years, the basic medical security system has been constantly improved with significant improvement in breadth and depth. According to the State Council, 1.34 billion people have been involved in three kinds of medical insurance in 2016, covering 98.8% of the total population; and the basic medical insurance fund balance for urban residents has reached RMB976.5 billion. The deficit risk of medical insurance is mitigated temporarily, but as the aging trend deepens and the total health spending increases, China's medical security system will still face heavy pressure.

Figure 2: Percentage of China’s aged population (2018 vs 2030)

The trend of population polarization deepens

China’s population is aging at growing pace. As estimated, the population aged above 65 will exceed 240 million by 2030, accounting for 17.1% of China’s total population and a quarter of global aged population.

Besides, since the overall implementation of two-child policy in 2016, China’s fertility rate has rebounded slightly, mitigating the pressure of rapid deceasing fertility rate to some degree. So in the next decade, China is likely to form a dumbbell-shaped a population pyramid featured with “growing aged people and children, declining middle-aged people”. Since the average health spending of aged people and children are much higher than the overall average level, it is foreseeable that the change of population structure will accelerate the growth of China’s total health spending.
2018 Trends of China Healthcare Industry

Present state and future trend of China healthcare industry
Demand upgrade drives the healthcare industry to transform from "medical services-focused" to "health services-focused"

With the rapid economic growth, people's improving incomes, increasing social wealth and the shift in health concept, China's healthcare industry is transforming from "medical services-focused" to "health services-focused", and upgrading its core of services from "resolving problems" to "detecting and preventing problems".

Health management industry has huge potentials driven by higher morbidity and fatality rate of geriatric diseases and chronic diseases

Due to aging population, unhealthy living habits, and exacerbated environmental pollution, the incidences of geriatric diseases and chronic diseases rise constantly. The deaths caused by chronic diseases account for 86.6% of the total death toll and this figure is still growing. As for the fatality rate, among the top ten causes of death in China, eight are or related to chronic diseases.

In a broad sense, the health management industry covers a wide range of services; but in a narrow sense, it mainly refers to a series of healthcare services or products which taking physical examinations as the core and are extended forward and backward aiming to "prevent and mitigate" diseases. In "the era of sub-health", in addition to physical examinations, health and chronic diseases management also include diseases prevention, health intervention, and rehabilitation medicine etc. Besides, health insurance also plays an important role in the industrial chain of health management. Meanwhile, the explosive growth of the health management industry will also promote the development of relevant sectors such as home medical instruments, smart wearables, health care products, and health advisory services.
The scale and quality of maternal and child healthcare industrial chain constantly improve

With continuous upgrade of people’s incomes and consumption demands, as well as the foreseeable baby boom in the coming 10 to 15 years, the maternal and child healthcare market expands rapidly. As a core segment, the maternal and child healthcare services have expanded the industry chain from ordinary “prenatal examination-childbirth” services to integrated services for mothers and children at all different stages.

Furthermore, since 60% of mothers who are eligible to have the second child are above 35 years old and have higher requirements on maternal services and stronger consumption ability, the maternal and child healthcare industry is developing towards high-end offerings by establishing more and more high-end private maternity hospitals and maternity hotels especially in economically advanced large cities.

As a new tourism pattern emerged in recent years, medical tourism has become the fastest growing segment in the global tourism market, while the medical tourism market in China starts relatively late. Under the impact of online tourism platforming tendency, more and more medical tourists establish online platforms, breaking the information barriers between patients and overseas medical resources and improving service efficiency and price performance. Overseas medical tourism programs designed for Chinese tourists mainly include critical disease treatment, overseas physical examination, assisted reproduction, and medical cosmetology.

Consumptive healthcare attracts capital’s attention

As the consumption upgrades, China’s consumptive healthcare market continuously scales up, in which some hot areas are combinations between healthcare services with cosmetic services, elderly care services, tourism, etc.

With the fast growth of medical cosmetology service demands and substantial capital inflows, many private and sino-foreign medical cosmetology institutions are emerging, making industrial competition much fiercer. The medical cosmetology industry will be expected to becoming more mature and will realize fast development in the future.

As the population aging intensifies, the elderly care industry draws the attention of policy makers, investors, and health agencies. In recent years, with the participation of various kinds of investors, primarily real estate developers, the investments in senior healthcare and senior housing have become increasingly diversified. Currently, China’s elderly care industry is still in its infancy, facing both opportunities and challenges.
The focus of the healthcare reform shifts from "cost control" to "optimizing and balancing medical resources"

2017 was a critical year for China’s healthcare reform. As of August 2017, nearly 100 policies were issued by the health authorities at all levels. With the implementation of a series of measures aimed to "control health spending", including "two-invoice system" and "zero mark-up drug policy", the focus of the healthcare reform has gradually shifted. According to newly announced policies, the healthcare reform will focus on optimizing medical services, balancing medical resources and finally realizing tiered health care in the next phase.

Cost control policies have been made sound and implemented in many provinces
As an important healthcare reform measure focusing on cost control, the "two-invoice system" has been fully implemented since 2017. Currently, the majority of Chinese provinces have developed implementation plans for adopting the "two-invoice system". It is foreseeable that the "two-invoice system" will be fully implemented across the country by the end of 2018.

In 2017, the Ministry of Human Resources and Social Security officially updated the national drug list for basic medical insurance, work-related injury insurance and maternity insurance.

In the future, the list will be likely to link up with new drug approval and the dynamic changes of the list will probably become the norm. The future of drugs will no longer be entirely determined by the inclusion in the list but depends more on the market competition for drug quality and the acceptance of doctors and patients.

In addition, with the implementation of the new payment by a certain category of diseases in some areas, the central government and health authorities will announce new reforms, transforming from "the payment by a certain category of diseases" to "payment by Diagnosis Related Groups (DRGs)". The implementation of DRGs will be challenged by traditional payment concepts and the limitations of hospital information management systems. The adoption of either payment form in Chinese medical institutions will jointly benefit the medical insurance funds, medical institutions, and patients.

The next step of healthcare reform is to focus on enhancing hospital management and operation abilities and realizing tiered healthcare system
In 2007, the General Office of the State Council has officially announced to establish a modern hospital management system, and planned to basically achieve this goal by 2020, with the objectives of optimizing hospital management and decision-making process, reducing internal friction and medical resource waste, as well as introducing advanced management concepts.

China has issued over 100 policies related to tiered healthcare system. The implementation of the tiered healthcare system will bring opportunities in four aspects: chronic diseases management, telemedicine, primary care, and family doctor system.
As the most important element of the healthcare system, hospitals are always the most-watched health agencies. As of June 2017, the total number of hospitals in China reached 29,717, among which 12,566 are publically owned and 17,153 are privately owned.

**Figure 3: Number of hospitals from 2012 to 2016**

Unit

Source: National Health and Family Planning Commission of the People’s Republic of China (NHFPC), Deloitte Research
In response to the 13th Five-Year Plan, private medical groups actively participate in public hospitals reform

Reform and restructuring is the primary method to reduce the number of public hospitals. The central government wants to lower public medical expenditures and maximize the operation efficiency of hospitals through restructuring public hospitals.

The NHFPC points out four directions for hospitals affiliated to state-owned enterprises (SOEs) in the Guiding Opinions on Deepening the Reform of Educational and Medical Institutions Invested by State-owned Enterprises: firstly, encourage SOEs to transfer their non-profitable medical institutions to local governments; secondly, close medical institutions that have operation difficulties and lack of competitiveness; thirdly, encourage SOEs majoring in healthcare industry to take over these high quality SOE hospitals, especially non-profitable SOE hospitals; and finally, actively attract qualified social capitals to participate in the restructuring of SOE hospitals.

Besides reform and restructuring, public hospitals should actively enhance market competitiveness

Amidst increasingly fierce medical market competition, public hospitals need to establish the enterprise performance assessment systems to improve their performances and secure the leading market positions. To avoid the patients being diverted, public hospitals must make up their shortcomings, develop patient-centred service consciousness, and improve patient experience comprehensively. Meanwhile, the concept of marketing management must be introduced if large public hospitals want to earn a place in the increasingly fierce market competition, satisfy patients’ medical demands, and establish steady and trustworthy doctor-patient relationships. Moreover, public hospitals need to take measures to develop standardized medical service processes, improve service quality, optimize resource utilization, and enhance medical safety. In short, Chinese public hospitals should seize favourable opportunities, accelerate resource integration and refine business operation to improve competitive strength for a position in the more and more market-oriented healthcare industry.
Multiple policies encourage social capital to establish medical institutions, and hospital M&As investments are hot in domestic and overseas markets.

The public hospital reform is in full swing, but most new private hospitals are newly established. Since 2009, the State Council and the health authorities have released many policies to support social capital to provide healthcare services, with the attempt to improve the operation efficiency of medical resources and avoid wasting by introducing advanced management concepts with the power of capital. Meanwhile, encouraging social capital to provide healthcare services is also an important method to balance medical resources in different areas.

Moreover, Chinese companies not only actively acquire domestic and overseas hospitals, but also seek for investment opportunities in other ways such as cooperation with funds or investment institutions. According to the data so far from 2017, the volume of investments in the healthcare industry has slightly decreased, but the overall amount of investments has increased significantly due to the larger amount of average single investment.

**Figure 4: Changes in the number of private hospitals by regions in 2012 and 2015**

[Graph showing changes in the number of private hospitals by regions in 2012 and 2015]

**Figure 5: Size of investments in the healthcare industry via VC/PE from 2012 to 2017**

[Graph showing size of investments in the healthcare industry via VC/PE from 2012 to 2017]
The digital revolution driving China's healthcare sector reform

China's healthcare information system is constantly improving

China’s hospital information system (HIS) – the cornerstone of healthcare’s digital transformation – has constantly innovated and upgraded over recent years. Efficient hospital operation is not its only concern. HIS developments have played a crucial role in key healthcare reforms including the establishment of regional medical partnerships, construction of a dual referral mechanism and the implementation of cross regional reimbursement. China's HIS is transforming and upgrading from a charging and hospital management-centered system to a clinical information system (CIS) focused on patients and service quality. Its next upgrade will see it become a global medical information system (GMIS) able to share healthcare data and information across regional medical partnerships.

Figure 6: The path to upgrading healthcare information systems

Although China’s hospital information system is a government driven market and dominated by domestic players, it remains ripe for consolidation. The top five players represent only about 40% market share. In addition, China’s private sector is growing rapidly, and will create huge demand. This means there is still room for other players to cut in, and competition will continue to escalate.
Clinical interpretation of health data is the next breakthrough

Electronic medical records (EMRs) and electronic health records (EHRs) have been widely applied in China. Technologies for capturing and storing health data are now mature. Yet most health data remains isolated and is not directly connected, and authorities have not yet developed accepted standards for interpreting and integrating this trove of information. Investment preferences in the capital market also reflect the bottlenecks to using collected health data in applications.

Figure 7: Realizing the value of health data

Therefore, the clinical interpretation of health data will become the top priority. Creating solutions to integrate all relevant health data and link this with clinical diagnosis and decision-making is a big opportunity in China’s big data based healthcare sector.
**AI accelerates penetration across China’s healthcare sector**

2017 can be considered China’s first year of mass AI adoption. Domestic and foreign companies and investors in every industry, including healthcare, were actively applying AI technologies.

In China, AI healthcare focuses more on interactive services. AI-assisted medical imaging, health management and disease risk prediction are drawing more attention. Indeed, AI-assisted diagnosis of some diseases is already mature.

‘Miying’, an AI medical platform developed by Tencent, is a famous example. It currently has six AI-based products for the early screening of esophageal cancer, lung cancer, breast cancer, colorectal cancer, cervical cancer and diabetic retinopathy. Miying has already worked with several top tier hospitals in China to launch these applications. Tencent has also built an AI-assisted triage system at West China second hospital to improve outpatient efficiency.

Unlike those of domestic players, many foreign AI applications focus on insights and analysis using big data and strong algorithms. They include AI-assisted new drug simulations that can help pharmaceuticals companies reduce R&D cost and improve the efficiency of clinical trials.

**Figure 8: AI applications in the healthcare industry**

- **High Complexity**: Percision medicine, New drug simulation, Public health surveillance, Clinical decision support
- **Low Complexity**: Robotic process automation (RPA), EPR mining, Voice interaction diagnosis and treatment, Medical image understanding, Personalized medical consultation experience

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*Source: Deloitte Consulting, Deloitte Research*
Internet of Health Things assists modern healthcare management

Internet of Health Things (IoHT) is another important element of healthcare's digital transformation. IoHT is a network of medical devices that connect automatically with one other to capture, share and monitor vital data through a secure service layer (SSL) linked to a central, cloud-based command and control server.

The development of Internet of Health Things has had a huge impact on the healthcare sector, proving particularly valuable in remote clinical monitoring, chronic disease management, preventive care, assisted living for the elderly and personal fitness monitoring. It has changed the game in the healthcare industry by lowering costs, improving efficiency and bringing the focus back to quality patient care.

Although Internet of Health Things will revolutionize the healthcare sector, it still faces challenges which limit its expansion and adoption in China. These include issues around safety and reliability, data privacy and a lack of clear regulation. The biggest challenge is for healthcare professionals to ensure devices are secure and used properly, data is protected, and that errors and exceptions are handled properly to guarantee patient safety.

Figure 9: Structure of Internet of Health Things

Source: Deloitte Research
Telemedicine at the heart of ‘smart hospital’ models

With the application, and growing maturity, of the above-mentioned digital and information technologies in the healthcare sector, medical technologies including point of care (POC) testing and biometrics have been upgraded, and the ‘smart hospital’ model of the future has essentially been formed. Improving medical service efficiency and patient experience by providing comprehensive, multi-dimensional telemedicine services is the ultimate goal.

Telemedicine has five main elements: remote registration, remote diagnosis, remote consultation, remote medical treatment and telecare. So far, remote registration is the only element that is fully-fledged.

In remote diagnosis, the past several years of explosive development and capital investment growth have heralded the formation of two major models of cooperation between mobile health companies and medical institutions. The first is ‘Hospital + Internet’, a model initiated by medical institutions, which can be seen as the extension of offline services online. The second model – ‘Internet + Hospital’ – was initiated by internet companies and supported by government and medical institutions. With the release of a new national policy in April 2018, mobile health companies must now acquire or build partnerships with physical medical institutions to run internet hospitals. The market entry threshold has risen and the sector will consolidate.

Remote consultation is an effective way to mitigate imbalances in medical resources. Unlike the B2C pattern of remote diagnosis, China’s remote consultation mainly adopts a B2B approach, wherein top tier hospitals in developed areas help grass-roots hospitals in remote regions treat intractable, acute and major diseases. This pattern not only widens the coverage of healthcare services, but also brings extra value to hospitals on both sides: top tier medical institutions can collect plentiful case studies on intractable diseases for academic purposes, while grass-roots ones improve doctors’ competency and incomes.

So far, multiple challenges to the widespread adoption of remote surgeries remain, especially bandwidth limits and their extremely high cost. However, robot-assisted remote surgeries should still be the top choice for outpatient surgeries in future. Besides big name products like Da Vinci and Senhance, Chinese players are also developing domestic products, normally for special surgeries. For example, ‘Tinavi’ is China’s first orthopedic robot able to perform surgeries on the extremities, pelvic fractures and the spine.

Telecare, the last piece of the telemedicine jigsaw, will free medical care from the confines of hospitals and clinics, enabling comprehensive services to be provided at home. Hospitals and medical group operators will constantly enhance out-of-hospital care by leveraging smart and portable devices. At the same time, they should be aware of the potential risks. In out-of-hospital care, these include a lack of supervision and professional operation, as well as the need for prudence when providing independent telecare for patients with medium and severe diseases or using complicated drugs at patients’ homes.

Figure 10: Future smart hospital models

Telemedicine at the heart of 'smart hospital' models

Regional clinical information management systems

Medical equipment accessible to IoT and the Internet

Bioinformation identification devices

Mobile device client terminals

Remote diagnosis systems

Smart hospitals

Network devices

Smart hospital infrastructure construction

Clinical big data

Source: Deloitte Research
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