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UPCOMING REGULATIONS ON INSURANCE REIMBURSEMENT STANDARD IN CHINA: CHALLENGES AND OPPORTUNITIES FOR MNCs

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INTRODUCTION

- Several healthcare payment reforms are occurring in China in an attempt to better control and manage expenditures
- One seeks to redefine the payment method to public hospitals for patient care, moving from a fee-for-service basis to a cost classification system with a fixed payment based on diagnosis (such as but not limited to a DRG system). Under the current FFS system, drug utilization drives hospital revenues thereby incentivizing the over use of drugs. However, with a DRG system, additional drug utilization will simply be an expense
- Another reform seeks to drive down drug expenditure by introducing a public bidding process to establish a drug's reimbursement cap which is called the 'reimbursement standard'
- Yet another reform creates a new therapeutic reference pricing policy, whereby only price will be used to differentiate products otherwise considered to be similar. Thus, sustainable access to undifferentiated products may be at risk
- The objective of this research is to understand how these reforms are being applied and implemented across provinces where they are piloted.

METHODOLOGY

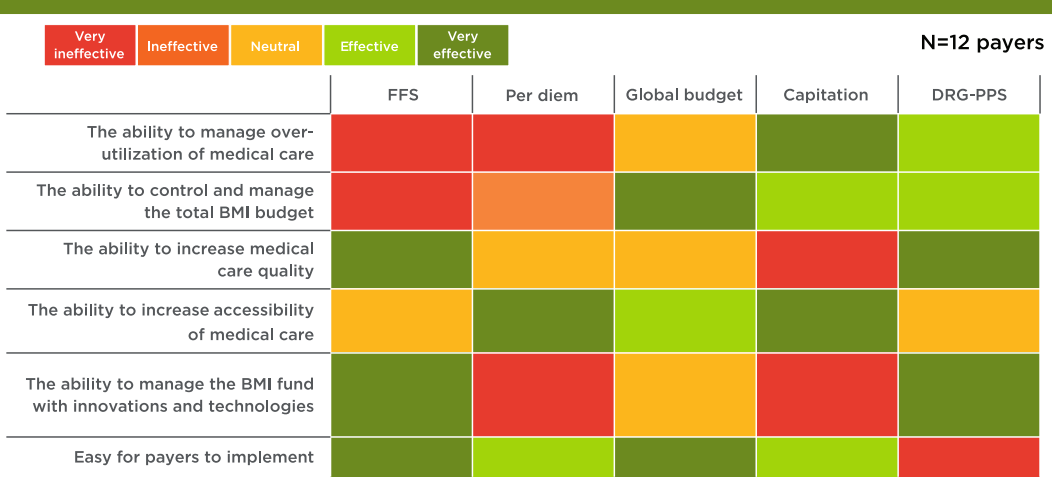
- Secondary research reviewed the reform policies, the alternative hospital payment methods utilized and the drug reimbursement standard achieved in three pilot areas: Chongqing, Sanming and Jiangsu. In-depth interviews were conducted with relevant government stakeholders to understand variation in provincial policy and implementation results across the pilot areas.

RESULTS

HOSPITAL PAYMENT METHOD REFORMS:

Across provinces, payers are trying to find a better hospital payment method within which to integrate the upcoming drug reimbursement standard policy.

FIGURE 1: PAYER PERCEPTIONS OF THE IMPACT OF DIFFERENT HOSPITAL PAYMENT METHODS



One local payer notes that in 2011, Beijing pioneered China's first DRG system including 108 groups (BJ-DRGs) in six hospitals. The Beijing model was developed based on local clinical data and by leveraging the US and Australian experience.

DRUG REIMBURSEMENT STANDARD:

The State Council issued a requirement (No.26, [2016]) to expand medical system reform, calling upon the MOHRSS, the NHFPC and the Ministry of Finance to implement the policy of "Basic Medical Insurance (BMI) payment method reform" with a deadline of June 2016. At the national level, MOHRSS has designed a top-down framework utilizing the drug "reimbursement standard". Local pooling areas will enact this framework through tailored policies at the provincial and municipal level. Beginning in 2015, the "reimbursement standard" reform has been piloted in three main areas, namely, Chongqing, Sanming and Jiangsu. These three pilots exemplify three main features of the "reimbursement standard" in China.

As suggested by national payers, the various forms of the reimbursement standard are predominately based on a drug's hospital procurement price and volume. Some provinces and cities have explored the method of collecting a drug's actual hospital procurement price and volume. However, MOHRSS has little historical drug procurement data to predict or anticipate the likely bids and hence establish the optimal reimbursement cap to implement the reimbursement standard.

Interviews with national payers and local payers in the pilot areas reveal the following points of view:

Reforming the hospital reimbursement system is the foundation of implementing the reimbursement standard. Because payment method towards DRG would lead to a shift in the approach of drug pricing at public hospitals when drugs are no longer the main revenue of hospitals but pharmaceutical effectiveness is, then Pharma companies will need to provide drugs that demonstrate real, measurable value to payers."
– National payer

"The DRG system ensures fair and appropriate reimbursement for drugs and encourages clinical department to reduce services and treatment cost."
– local payer

"We have too many different situations so using a mix of payment methods combined with the drug reimbursement standard is the solution for now."
– National payer

"It's hard to implement DRGs in China, we're using a similar approach: "pay per disease" to manage the fund, define the clinical pathway and prevent over utilization of drug and treatment." – local payer

FIGURE 2: INTERVIEW RESULTS WITH PAYERS ON DIFFERENT PAYMENT REIMBURSEMENT STANDARD

Three main features of the implementation of the reimbursement standard		👍	👎
Price oriented	Representative city: Sanming city • For the same class of drug, the lowest price from the winning procurement bid establishes the same reimbursement standard for both generic and branded drugs	• Effectively lowered the price • Lowered the percentage of healthcare spend on drugs	• Branded drugs may leave the market • No incentive to increase drug quality
Procurement oriented	Representative area: Zhejiang/Anhui • For the same class of drug, the average historical winning bids (price and volume) from hospital procurement establish the reimbursement standard OR alternatively use the procurement winning bid as the reimbursement standard	• Feasible to lower the price of drugs	• Hard to collect procurement data
Quality oriented	Representative city: Chongqing • For the same class of drug, a separate reimbursement standard is set for generic and branded drugs; and as such there may be two or three prices for one class of drug.	• Differentiate generics and branded drugs • Feasible to lower the price of drugs	• Hard to lower branded drug's price • Hard to manage many prices

CONCLUSIONS

- Given the intent, structure and implementation of the healthcare payment reforms, sustainable access to products will require strategic initiatives to substantiate the differentiated value of innovative products and motivate the need for a separate reimbursement standard for differentiated products
- As DRG or DRG-like payments are implemented, there are opportunities for MNCs to inform the development of optimal clinical pathways and appropriate place in therapy for products. In particular for innovative drugs, companies can conduct PE(Pharmaceutical economics) studies to prove the value of their place in therapy. For the reimbursement standard, companies may help collect purchasing and price data

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