

POLICY AND PRACTICE UPDATES

Bayer Pharmaceutical Will Relocate Its OTC Global Headquarters to China

Source: Sohu Health 2011-7-05

<http://health.sohu.com/20110328/n304996674.shtml>

Li Xilie, Bayer's China branch president, revealed that Bayer will officially move its generic drug global headquarters to Beijing, China. According to Mr. Li, very few international corporations are based in China. By making this historical move, Bayer aims to have a better understanding of Chinese consumers' needs and adjust accordingly its research and development and resource allocation. Bayer believes that their move can improve technology and standards of China's pharmaceutical industry, enticing more firms to follow Bayer's example.

Bayer spends more than 15% of its total sales in research and development, and it plans to introduce 20 new products to the market in the next 5 years. Bayer implemented "regionalization" strategy, establishing 3 full-function regional headquarters in China: northern region with Beijing as headquarter; eastern region with Shanghai as headquarter; and western region with Chengdu as headquarter. Currently, northern region occupies 45% of the Chinese market, while the western region is showing the fastest growth.

State Council Launched Health Reform Advisory Committee to Restructure Drug Circulation System

Source: 21st Century Economic Report 2011-7-05

http://www.cs.com.cn/xwzx/14/201107/t20110705_2952429.html

The State Council Health Care Reform Advisory Committee was established on June 23rd, 2011 to assist China's medical reform. The main functions of the committee are offering consultation for health care reform plans, conducting surveys and researching local health care reform results, evaluating effectiveness of health care reforms, providing policy change suggestions, and establishing links with news media. Many famous scholars in various fields from China and abroad are included in the committee.

The health care reform plan was revealed in 2009, with a three-year time frame to accomplish the main objectives. As the countdown begins, the question remains if the reform plan has been implemented or still remains on paper. The main task of the committee is to assist the State Council in designing the health care reform as part of the Twelfth Five Year Plan. During its first meeting, committee members had heated debate over whether health care should be viewed as a public good. This debate draws attention to the experts' disagreement about the right approach to reform - whether the government should subsidize the supply side or the demand side.

In addition to the role of public hospitals, the reconstruction of drug circulation system is also an important issue. The trade-offs between drug quality and cost need to be balanced for the reform to be successful.

Suqian's New Drug Compensation Policy: 30% Government Subsidy on Top of Health Insurance

Source: 21st Century Economic Report 2011-7-11

<http://www.21cbh.com/HTML/2011-7-9/5NMDY5XzM00TY5Ng.html>

The National Essential Drug Policy will be implemented in all the primary health care institutes by the end of 2011, which will make essential drugs "zero profit". A persisting issue in achieve this goal has been whether to subsidize the supply side (hospitals) or the demand side (patients). After much research and discussion, the Suqian Government decided to compensate the demand side,

providing an extra 30% subsidy in addition to patients' health insurance to ensure their essential drug expenditure is no higher than that in surrounding regions. The reform also allows private hospitals to negotiate medicine prices on their own, instead of participating in the provincial bidding and procurement process.

The innovative plan still needs clarification on implementation details, but it achieves "zero profit" without hurting the profitability of private hospitals and at the same time brings welfare to patients. One concern is that the National Essential Drug Policy requires drug bidding and procurement process be carried out at the provincial level, in direct contrast to Suqian's reform plan. It remains to be seen if Suqian can stay outside the national plan.

Multi-site Practicing will be allowed for More Doctors Nationwide

Source: 21st Century Economic Report 2011-7-26

<http://finance.ifeng.com/news/industry/20110726/4309700.shtml>

On July 25th, the Ministry of Health made an announcement allowing more multi-site practicing for doctors nationwide, expanding the implementation area to cities and provincial centers involved in the Public Hospital Reform and two extra prefectures in each city or province. The Ministry of Health lowered the entry requirements for doctors to start practicing, but also tightened management and evaluation of multi-site practicing doctors.

However, multi-site practicing was not well-received in the first generation of experimenting cities such as Beijing, Guangdong and Hainan. Few qualified doctors were willing to perform their jobs in several different institutions. The first obstacle lies in concerns from those doctors. They fear that they will be exposed to more pressure and risk, without a corresponding increase in protection. The second difficulty stems from the current personnel system. Doctors represent hospitals' primary asset and their competitiveness, so hospitals have no incentive to encourage their doctors to practice at other sites. Experts point out that for multi-site practice to become more popular, hospital personnel system needs reform, and doctors' responsibilities and rights should be clarified and protected.

Beijing's First Experience with DRG Based Hospital Payment

Source: Economic Observer 2011-8-15

<http://news.hexun.com/2011-08-10/132281370.html>

Beginning on August 1st, six hospitals in Beijing will experiment with an innovative payment system, charging patients with insurance according to Diagnostic Related Groups (DRG) – a disease classification code based on age, disease severity, treatment method etc. The DRG coding is made possible because hospitals in Beijing adopted the electronic health information system. A primary reason for initiating this payment system is to avoid hospitals providing "excessive" treatments, prescription, and over-charging medical insurance fund.

Although the new arrangement is theoretically feasible, a few concerns still need to be addressed. The first concern is how to determine the disease categories and how to price them. So far, the categorization standard is set by the Ministry of Human Resources and Social Security, and hospitals do not know classification details and methodologies. It is suggested that a broader group of experts should participate in the classification process, such as hospitals and academia. The second concern is that DRG payment system only deals with pricing, but not medical care quality. It is predicted that the administrative capacity of the government is the most significant factor to determine whether the reform will succeed.

Jining's Health Reform: Paying after Treatment

Source: Economic Observer 2011-8-6

<http://finance.sina.com.cn/g/20110806/102710273086.shtml>

Many Chinese patients, especially those in poor rural areas, suffer from heavy financial burden when sick, and some of them gave up treatment because of limited financial resources. Recently, a new kind of payment arrangement emerged in Jining, allowing insured patients to receive treatment first, and pay the deductibles later in one or more installments. This endeavor has been tried and failed in other hospitals. However, according to the head of Yanzhou TCM hospital, if payment from Rural Cooperative Medical Services and Medical Insurance Service is guaranteed, the hospital would have balanced expenditure and compensation even if majority of patients default. He believes that most of the patients, after receiving the medical treatment, are willing to pay for the service and medicines as long as financial situation permits. This arrangement has so far worked very well both for the patients and the hospital.

However, more obstacles might be encountered if this payment system was to be expanded. Some experts say this arrangement is probably only applicable for primary hospitals, where the payment of each patient is relatively small in secondary or tertiary hospitals.