

POLICY AND PRACTICE UPDATES

Shanghai Health Care Reform Plan Officially Launched

Source: 21st Century Economic Reporter 2011-5-18

<http://www.21cbh.com/HTML/2011-5-18/3MMDAwMDIzODg3MA.html>

After a period of public comments and subsequent amendments, the final version of Shanghai Healthcare Reform Plan was officially released on May 17th. Shanghai government set a higher goal for itself, promising not only to complete national goals, but to set up a basic healthcare network covering urban and rural residents by 2012.

It is worth noting that the plan has two new components. The first one is to reform the compensation method for public hospitals. Under the new mechanism, the drug mark-up will be abolished and public hospitals will be compensated through pharmaceutical service fees, medical service fees for high-end procedures and care, and government investment. The second change is to construct vertical regional medical consortiums among primary, secondary and tertiary hospitals and community medical centers. The consortiums will increase efficiency of health resources utilization. In anticipation of possible profit-sharing problems among medical institutions, Shanghai will adopt total budget system within consortiums, an idea borrowed from Zhenjiang, a pioneering region in medical reform.

New Cost Containment Policy: Diagnosis-Related Group (DRG) Based Payment Strategy Implemented in Major Cities

Source: 21st Century Economic Reporter 2011-4-27

<http://www.21cbh.com/HTML/2011-4-28/4NMDAwMDIzNTM4Ng.html>

Starting on May 1st, several cities and regions in China will implement the Diagnosis-Related Group (DRG) Based Payment Strategy to control the rapid increase in medical expenditure, which has been partially blamed on the itemized payment system. The reform will hopefully improve the quality of medical treatment, ensure medical safety and reduce medical costs.

DRG Based Payment in China is still in its experimental stage and faces many difficulties. For example, the new payment strategy should be based on a complete clinical pathway management system which is still new in China. The reform also requires realignment of the hospitals' interests and reconstruction of the relationship between hospitals and medical insurance departments. The cooperation of related departments plays a significant role in this reform that is a long-term process requiring at least two or three years.

Diagnosis-Related Group (DRG) Based Payment: Experience from Beijing

Source: 21st Century Economic Reporter 2011-5-19

<http://www.21cbh.com/HTML/2011-5-19/3NMDAwMDIzOTA3Ng.html>

DRG Based Payment will be implemented soon in Beijing, according to an officer of the Bureau of Public Health. The purpose of the reform is to control the rapid increase of medical expenditure, whose root cause was considered to be the itemized payment system. Under the traditional system, physicians have the incentive to prescribe unnecessary procedures or drugs to increase their income. The DRG payment system sets a uniform price tag per disease group. Once medical costs exceed the price tag, hospitals will be responsible for the balance, providing physicians a strong incentive to reduce procedures or drugs prescribed. Conversely, hospitals might be more likely to omit necessary medical items, lowering medical service quality. Therefore, a system of clinical supervision is indispensable.

Beijing University People's Hospital is among the early reform testing spots. In tackling the medical quality issues, the hospital set up a performance examination mechanism involving 88 quality control points before, during, and after medical procedures. The hospital intends to gradually separate physician compensation from medical cost, using the quality control mechanism to reduce over-prescription or low-quality care. People's Hospital also hopes the new system will encourage physicians to accept patients with difficult diseases, to demonstrate the value of a university affiliated and tertiary hospital.

"Medical Conglomerate" Experiment in Shanghai: A Multi-level Solution to the Accessibility Problem?

Source: Economic Observer 2011-05-21

<http://insurance.jrj.com.cn/2011/05/21140010023083.shtml>

Many people complain about the difficulty of getting medical services, while most community hospitals have few patients. To solve this problem, Shanghai began constructing medical consortia this year. In the Healthcare Reform Plan released on May 17th, experimenting and constructing medical consortium is one of the ten important tasks.

The construction of a medical consortium cannot be isolated from other healthcare reforms. The core purpose of the consortium is to reallocate resources among different levels of medical institutions, facilitate better cooperation, and encourage patients to choose hospitals according to need.

Ruijin-Luwan medical consortium was formed in January, consisting of 1 tertiary hospital, 2 secondary hospitals and 4 community medical centers. Patients could first go to the community hospitals, and if needed, transfer to higher level hospitals. Patients will be able to see physicians close to home, transfer to a different provider easily if needed, and book appointments with specialized doctors in tertiary hospitals. At the same time, data sharing platform and professionals exchanging mechanism could also be constructed to reduce unnecessary checkups and improve patients' experience.

However, consortia have been faced with many difficulties, the main cause being citizens' distrust of medical service quality at community medical centers. Experts believe the success of medical consortia depends on patients' trust and satisfaction, which are currently lacking.

At this experimental stage, management of medical consortium, cooperation, and profit sharing among hospitals in the consortium remain unresolved, and are still in many cases administered by the local government. There is still a long way to go in promoting medical consortium nationwide.

Public Hospitals in Shenzhen Decouple with Government: the Establishment of Hospital Administration Committee

Source: 21st Century Economic Reporter 2011-6-2

http://news.ifeng.com/mainland/detail_2011_06/02/6772199_0.shtml

On May 31, three public hospital reform plans were released in Shenzhen, with the guiding principle that public hospitals should do public good, and not operate in pursuit of profit or higher financial or professional gains. Under these reforms, the current hospital administrative ranking system will be abolished and replaced by the board of directors system. Once in place, each board will assume full financial and personnel responsibilities for the hospital under its supervision, including the hiring of hospital director and associate director.

A city-wide public hospital management committee will be formed to represent the government in making managerial and operational decisions, such as unified resource allocation within all city public hospitals and examination of financial budgets.

The city's Department of Health, originally providing oversight on public hospitals, will now only be responsible for constituting regulations and rules, formulating industry standards, evaluating performance, and setting entrance standards for hospital personnel.

Under the proposed system, hospital board of directors will be responsible for individual hospital's management, while the government-level management committee will be responsible for all public hospitals within Shenzhen. With this more divided and professional management system, the reformers hope to improve public hospitals' efficiency and effectiveness.

Jointown Pharmaceutical Collaborates with 360buy.com to Pioneer Internet Drug Selling

Source: 21st Century Economic Reporter 2011-6-30

<http://finance.ifeng.com/news/20110630/4209043.shtml>

Although not officially confirmed, cooperation between Jointown Pharmaceutical Group Co., Ltd and 360buy.com online shopping might be on its way. As the largest private pharmaceutical company in China with a sales volume of ¥22 billion RMB in 2010, Jointown seeks to break into the online B2C (Business to Customer) business, currently only accounting for a small fraction of the company's profit.

According to Nie Linhai, the Deputy Director of the Department of Information Technology within the Ministry of Commerce, the bottleneck for pharmaceutical e-business lies in logistics. Although many provinces and cities have been pushing for pharmaceutical e-business development, no company has exceeded ¥100 million RMB in sales.

Experts in the field point to the unique requirement of individualized, web-based medicine distribution. Since all drugs are controlled and tracked by their production lot number, there could be no mistake when dividing whole-sale drugs into individual orders, requiring extensive industry and drug knowledge. Using the current Jointown B2C platform as an example, the company normally provides wholesale drugs to downstream drug stores in large quantities, but has to break them down to single packages when fulfilling online individual orders. This process is very costly, and explains why Jointown has yet to turn a profit on their B2C platform.

With all the complications in sight, the healthcare e-business still offers great potential as the future venue for pharmaceutical trade. The Ministry of Commerce has adopted some policies to encourage the development of e-business and reduce transaction cost, and has estimated that the market volume for healthcare e-business might reach 17.8 billion RMB in 2011, with a projected 30% CAGR for the next five years.