HEALTH CARE, AMERICAN STYLE

U.S. insurer Cigna has gained a foothold in China by offering locals an alternative to emergency rooms and long queues.

BY CHARLES WALLACE

OPENER TK

QUALITY HEALTH CARE IN CHINA: THE WAIT IS (SORT OF) OVER

American insurer Cigna is helping the nation's affluent and rising middle class tap into high-end hospitals and drugs.

By Charles Wallace

OPENER TK

HEALTH CARE IN CHINA: THE WAIT IS OVER (SORT OF)

U.S. insurer Cigna American insurer Cigna is helping the nation's affluent and rising middle class tap into high-end hospitals and drugs. **BY CHARLES WALLACE**

Patients wait in the lobby of Huashan Hospital, one of Shanghai's VIP treatment facilities

Photographs by DAVID HOGSHOLT

OPENER TK

(SHANGHAI) By 8 a.m.,

Renji Hospital, founded in 1848 by Western missionaries and still one of China's best medical centers, is already in a state of chaos. A veritable sea of patients is crammed into the reception area, waiting impatiently to see a doctor. They first line up under giant neon boards that list physicians' specialities to collect a number on a waiting list, then join another snaking line at a cashiers' window, and finally shuffle into even longer queues to wait for a doctor to see them in examination rooms with chipping paint. This scene is played out daily across China, which has a limited primary health care system. Medical services are cheap but rudimentary: If you have any malady from a bad cold to cancer, you must go to the emergency room to seek medical treatment.

JUMP TO THE NEXT STORY

CIG.V.06.10.13.LOCAL1 4
5/16/13 4:30 PM

David Cordani, Cigna's CEO, sees China as key to the company's growth.

But in a modern building less than 100 yards from the main Renji emergency ward is a glimpse at China's future. It is the *guibin texu*, known more commonly by its English translation: VIP hospital. In the VIP building, patients don't line up but wait for appointments on leather sofas, entertained by widescreen TVs. Instead of the shouting heard at Renji's main hospital, the noise level in the VIP section remains an understated murmur. Patients are escorted into private examination rooms by nurses in crisp white uniforms. The specialists who are so very hard to see at Renji are now suddenly available by appointment—for a price. The physicians at the VIP hospital charge $60 or more for a consultation, 50 times what patients pay across the road.

To help pay for such VIP treatment (and treatments), a growing number Chinese consumers are turning to supplemental health insurance—a thoroughly American concept. The irony is that de-

GRAPHIC TK

spite soaring demand for various financial services, foreign firms have just 2% of the banking and insurance market, according to McKinsey & Co. State-owned insurance companies dominate the market to such extent that last year New York Life abandoned its China joint venture, selling out to Japanese firm Mitsui Sumitomo Insurance because of slumping earnings.

But one U.S. firm, Philadelphia-based Cigna, is quietly winning over Chinese consumers, largely by defying conventional wisdom about how an American insurer should operate in China. Cigna entered the China market in 2003, partnering not with a local insurer but with a leading retail lender, China Merchants Bank, which is known for its deft handling of consumers. Rather than deploying an army of relatively expensive salesmen, which has burdened

Touch the yellow box for company info.

CI

Ma Weihua, CEO of China Merchants Bank (with Cordani), is an effective partner.

many other firms with a huge overhead, the Cigna joint venture has instead deployed innovative marketing, call centers equipped with the latest data-mining techniques, television commercials featuring a movie star pitchman, and online and social media sales to gain a growing foothold in the Chinese market. Last year Cigna's joint venture in China had revenues of $331 million, up 32% from the year before (though still a small fraction of the company's overall $29 billion in sales). After a decade of operation, the firm just sold its 1 millionth policy in China. The business broke even after just three years and is now solidly in the black.

Cigna's early success in China sets the company up to capitalize on a confluence of forces reshaping the nation, starting with the rise of private hospitals and clinics as a key pillar in Beijing's evolving efforts to provide health care to 1.3 billion people. These VIP institutions target China's rising middle class and wealthy, a group whose affluence will—and this may seem counterintuitive—actually create more demand for health care and insurance. They will live longer, requiring special care and treatments for diseases common among the elderly; their diets will change (not necessarily for the better); and they'll insist on drugs and medicines that previously had not been prescribed because of costs.

Ana Gupte, an analyst at Bernstein Research, says spending on health care in China is expected to more than triple to $648 billion in 2015 from $182 billion in 2008. She reckons that the market for health insurance in China will reach $15 billion in 2015, and that Cigna's revenues there could approach $1 billion a year, nearly a third of what the company now earns from its international business."China is the fastest growing asset in our international portfolio," says David Cordani, Cigna's CEO, during a visit to Shanghai. "Over a five- to 10-year horizon, China will become the critical part of our business portfolio because we will bring multiple products and services to the market, both for the individual and the emerging employer landscape here. It's an exciting part of our future."

Call centers, such as this one in Shenzhen, help drive insurance sales.

On the second and third floors of a nondescript office building in the southern city Shenzen lies the beating heart of the Cigna venture in China: a call center with 300 sales agents in cubicles, peering at sales scripts on computer screens. "You know, the costs of cancer treatment are increasing every year," Tao Wei, a 25-year-old telemarketer, intones politely into his headset, beginning a sales call.

Technology is Cigna's edge: Tao isn't simply cold calling potential customers, he's contacting consumers Cigna has identified as strong prospects—and offering them insurance products tailored to their needs. Cigna does this through proprietary software that sifts through 300 data points such as credit card use and demographics to help its marketers fine-tune their pitch—all while claiming to protect the privacy of the customers' information. "It's like a FICO score," says David J. Fogarty, who now runs Cigna's predictive products business. He's a former GE Capital executive, thus the reference to FICO, the credit scoring system. Cigna's software shows "this is the best product to sell that customer."

When the technology sees a lot of foreign travel charged to credit cards, for example, it associates that cardholder with a health policy that is designed specifically for Chinese who travel overseas. In call centers like the one in Shenzen, operators have what is called predictive dialing: The telemarketer has the customer's background and what products to sell automatically cued up on their computer screen, along with a tailored pitch.

At this one site in Shenzen alone, they are selling 80,000 policies a month. There are two other multiprovince call centers in Shanghai and Wuhan, along with smaller centers based near affiliates who want them. Cohen Yang, one of the managers who runs the Shenzen call center, notes that most Chinese provide a cellphone number to their banks and haven't yet adopted the American habit of hanging up on telemarketing calls. The customers, Cohan says, are actually keen to learn more about health insurance. The call center telemarketers are in a friendly competition for sales bonuses that include refrigerators and trips abroad.

Cigna also is selling hard on television and the Internet. It uses a popular Chinese movie star named Xia Yu, who won the best actor award at the Venice Film festival for his debut film in 1994, as the TV pitchman. Xia, who sells a cancer policy in the commercial, was selected in part because he is well known among Chinese for his family story: A relative had cancer, and Xia took time out from his career to be a caregiver, a problem that resonates with many Chinese in a country where an estimated 80% of the people still smoke cigarettes.

Cigna had the foresight to see this market developing long before most of its competitors. It's a big contrast to the company's domestic business, which is focused almost exclusively on selling group plans and, like all of its competitors, now faces thin margins because of the uncertainties raised by Obamacare. How, for example, will the number crunchers determine risk exposure when they can never turn away a customer, no matter how sick? As a result of declining domestic profitability, Cigna long ago turned to the overseas market, building an impressive record selling policies to individuals in South Korea, a market it opened 20 years ago and which now accounts for a third of its international sales, and such other countries as Indonesia and Australia.

Because of Chinese regulations, insurance companies need to obtain a separate license for each province they operate in. Cigna, which just obtained its 11th provincial license, thus enjoys in China what Warren Buffett has termed "a wide moat," a tough barrier to competition because any new rival would have to follow the same tedious and time-consuming process of obtaining licenses in order to enter the market.

To be sure, other American insurers, such as AIG and Aetna are selling health products in China, but they haven't yet achieved Cigna's depth of market penetration.

Wedbush Securities analyst Sarah James says that because of the lengthy registration process, its unlikely that other big insurers will follow Cigna into the market. "It's a great opportunity for them," she says. "I don't see anyone else entering the market there."

Cigna CEO Cordani ascribes much of the success of the joint venture to the choice of China Merchants Bank as its partner. Cordani explains that the company seeks partners that are primarily great marketers, regardless of their insurance experience.

The largest shareholder-owned bank in China, CMB is run by an ebullient businessman named Ma Weihua, the focus of not one but two case studies at the Harvard Business School. CMB was the first Chinese bank to really focus on the retail market rather than the corporate world, introducing such innovations as the first "all-in-one" debit card and Internet banking, so that customers could control all their banking activities with one account number—a huge innovation in a country where banking was until very recently confined to multiple slips of colored paper. "My strategy was we had to be a little earlier, a little faster and a little better," Ma tells *Fortune*. "So we always have to think and do things three to five years ahead of our

Touch the yellow box for company info.
AIG
AET

CIG.V.06.10.13.LOCAL1 12
5/16/13 4:31 PM

China Merchants' headquarters in Shenzhen also houses the joint venture.

state-owned competitors."

China Merchants Bank, which also boasts a private banking unit, is key to Cigna's efforts to expand its market to high-net-worth customers ($350,000 to $1.5 million in assets) who travel abroad and can take advantage of Cigna's established network of hospitals and doctors outside of China, in places like Singapore, Hong Kong, and even Europe.

When Cigna began selling insurance in China, it began with simple health and accident policies such as the cancer product that offers a lump sum payout when a catastrophic event happens. Fernando Moreira, a Brazilian who joined Cigna in 2012 to head the China operation after working as an adviser to Ping An, a huge Chinese life insurance company, estimates that about 70% of Cigna's business in China is in the supplemental health, life, and accident market, with annual premiums as low as $150.

These days, though, Cigna is making a push for clients who will spend $15,000 a year or more on insurance. Customers like Li Zheng, the 36-year-old CEO of a computer network company. Li told *Fortune* he signed up for a Cigna policy because he wanted access to the better service offered by private health care. "At public hospitals you have to wait a long time," Li says. He also has a Canadian-born wife and often travels abroad, so he wants to be covered on his overseas trips as well as in China.

Ben Cavender, associate principal at CMR China Market Research Group in Shanghai, says at lot of younger Chinese executives at multinationals have more money than previous generations, and they now must care for their aging parents. "There's absolutely going to be very strong demand for the kind of individual health care policies Cigna is offering," Cavender says.

The next chapter in Cigna's expansion is offering U.S.-style workplace insurance plans to Chinese companies. These are relatively expensive so would be available only to executives and middle managers. So far, China does not offer any tax benefits to companies that provide health care insurance, but is reported to be considering making a change, which could vastly increase Cigna's business.

Not that Cigna is sitting back and waiting for legislative or policy changes to boost its business in China, or elsewhere in the developing world for that matter. Emboldened by its wins using unexpected tactics, the company continues to experiment in China. Cigna has signed deals with another 12 banks, credit companies, airlines, and even retailers to get access to their customer lists as potential sales leads. It has also created a concierge service to help middle-class Chinese deal with the brave new world of capitalist-style, fee-for-service medicine. And its practice of teaming up great marketing partners—rather than successful insurers—continues. For its new joint venture in India, which also has a rising middle class that is starting to demand VIP health care and insurance, Cigna chose another unconventional partner: a diversified local manufacturing company best known as a maker of pressure cookers.