

Consumer Council
Submission to the LegCo Panel on Health Services on
Healthcare Reform Second Stage Public Consultation
(11 December 2010)

Introduction

1. The Consumer Council (“CC”) is pleased to provide its views on the proposed Health Protection Scheme (HPS) for consideration of the LegCo Panel Members.

HPS

2. CC welcomes the Government’s launch of the healthcare reform second stage public consultation with proposals on introduction of a voluntary and government-regulated HPS, providing consumers with choice of health insurance products.

3. Consumers have had various problems related to health insurance (e.g. insurers’ selective underwriting, premium setting not transparent, refusal or delay in claim compensation) in the past. The HPS can serve to ensure intended subscribers will not be denied access, there can be guaranteed renewal for life, the terms of and definitions in health insurance policies can be standardized, and a health insurance claims arbitration mechanism will be established. All these features will help strengthen consumer confidence in participating in the HPS.

4. Prior to any discussions on details of the HPS proposals, CC considers it necessary to explore the fundamental objective of the HPS – is it for enhancing people’s general physical well-being, or is it for bringing in healthcare financing? These two objectives would have distinctly different directions in designing the HPS.

5. If the former objective is to be achieved, the scope of the HPS should aim to provide healthcare to more people (regardless of their age, state of health or financial capability). If it is the latter objective, the HPS would serve the more limited purpose of channeling those who can afford to pay to private healthcare services, thereby easing the burden of public healthcare financing.

Consumers’ concerns

6. Since the HPS proposals were announced, there has been much discussion around opinions from the trades, including whether private healthcare providers will adopt “packaged charging” in providing medical services, whether private healthcare insurers will participate in the provision of HPS plans, etc. The above stakeholders’ views indeed have important bearing to whether the HPS can be successfully launched, but public support and active participation in the HPS are decisive.

7. Notwithstanding that consumers are users and payers of the HPS, their say is as weak as their bargaining power. CC is concerned how

vulnerable consumers can procure a HPS that is affordable, equitable, with choices, and quality-assured, one that serves to protect their interests in healthcare services and health insurance.

8. The Government proposes that the HPS offers various economic incentives such as premium discounts. These may successfully attract consumers to participate in the HPS at the beginning. However, it is necessary to ensure ongoing participation and the views and concerns of consumers with regard to the HPS have to be tapped and tackled.

- **Can consumers afford to pay the premiums?**

9. It is stated in the consultation document that the objective of the proposed HPS is to enhance the sustainable development of the healthcare system. As far as consumers are concerned, they will be concerned whether they can afford to keep up with health insurance premium in the long run. Apart from enhancing premium transparency for all HPS plans, there is the need for the Government to allay consumer doubts as to the reasonableness of premium increases.

10. With regard to the Government's proposed guidelines for premium adjustment based on claims and costs, CC is of the view that the Government should clearly state whether the guidelines will be subject to regulation, or whether they are for industry self-compliance only. If the guidelines are not legally binding, and no penalties are set for improper conducts such as non-compliance of the guidelines and giving false information, enhancement of premium transparency on its own is unlikely to reduce consumers' worries. It will also be unfair to honest traders.

11. The consultation document proposes a number of cost containment measures to be incorporated into the HPS, including co-payment, deductible and benefit limit, to prevent abusive use of healthcare services and to curb moral hazard, thereby reducing the premium level.

12. However, apart from rise in medical claims, other factors such as medical costs, administrative charges, commissions, investment returns and reserve levels also lead to premium increases. It is therefore equally important for the Government to adopt appropriate regulatory measures to ensure there is also cost effectiveness in respect of those factors.

13. Regarding the proposal of requiring insurers to be transparent in relation to insurance costs, CC believes that it is definitely useful in enhancing premium transparency. But if the requirement is limited only to the reporting and making disclosure, it will not meet public expectation that the HPS is to be effectively regulated by the Government.

14. Although the Government has made it clear that the HPS will be subject to a regulated framework, CC considers it necessary for the Government to give details of the scope of regulation, particularly with regard to the Government's role in premium adjustment. For example, will insurers be required to submit supporting data to justify premium adjustment and obtain

approval of the Government? Under what circumstances will the Government intervene in premium adjustment?

15. Moreover, CC recommends that the dedicated agency proposed to be set up for supervising the implementation and operations of the HPS should also be responsible for monitoring premium adjustment, conducting systematic analyzes and studies (including collecting local data and comparing health insurance costs with similar overseas systems), as well as providing the public with readily understandable analytical data (e.g. claim ratio – claim as % of premium), to help the public better understand the reasons for premium increases.

- **Will the benefit coverage of the HPS provide adequate protection to consumers?**

16. For consumers, in addition to assessing affordability in purchase of the HPS, they also need to consider if the benefit coverage and limits for the HPS plans would meet their needs and be value-for-money.

17. It is recommended by the Government that the HPS Standard Plans provide coverage for hospitalization and specialist consultations associated with the required hospital admission, but general out-patient services are excluded in order to minimize the risk of moral hazard which could lead to premium increases.

18. General out-patient service (primary care) is an important first step in protecting public health. CC is concerned that excluding it from the Standard Plans may cause people to neglect preventive care or to fail to seek treatment at an early stage, and the subsequent hospitalization cost may be increased. CC believes that the Government's proposed "co-payment" approach could help reduce abusive use of out-patient services. CC therefore suggests that out-patient services be included as core items (the Standard Plans) under the HPS to meet the holistic health concept for better public health protection.

19. As proposed in the HPS, individuals may purchase on an optional basis any other non-core items in the form of top-up components to suit their needs. However, according to CC's experience, many top-up products or services (such as those involved in telecommunications, broadcasting, and beauty services) were major subjects of consumer complaints, involving improper sales practices such as false or misleading claims, tie-in sales, etc.

20. The Government suggests that premium schedules for Standard Plans and other HPS plans (top-ups) be published for public information. CC considers that this would only enhance premium transparency, effective regulation should also cover sales practices regarding Standard Plans and other HPS plans (top-ups).

- **How are consumers to choose from HPS plans?**

21. As previously mentioned, the focus of the Government's proposal is to increase premium transparency (e.g. publishing premium schedules and

setting premium loading ceilings), but health insurance is a complex product and it is not easy for consumers to make comparison.

22. CC recommends that the Government considers constructing a website similar to the one set up by the Australian Government (www.privatehealth.gov.au), listing for comparison information (including protection coverage and premiums) on all HPS plans. Such a website can enable consumers to understand and search for appropriate health insurance plans, as well as promote market competition.

- **Will the proposed thresholds impede people who are most in need of healthcare protection from accessing the HPS?**

23. Another issue of concern is that some of those most in need of healthcare protection may not have access to the HPS, and what can be done about them.

24. The HPS is promoted as “accessible to all”. However, it is noted that the HPS as proposed will not provide universal access. Some consumers would be denied access to the HPS. For instance, those with pre-existing medical conditions would be subject to waiting periods. High risk individuals would be subject to premium loadings, and those aged 65 or above can only join the HPS within the first year after launch.

25. Compared to the present situation, the HPS will set out in clearer terms the conditions of insurance (such as specifying the premium loading ceiling, the maximum length of waiting period and entry age limit). Although these measures can reduce insurers’ underwriting risks, some of those most in need of healthcare protection (i.e. those chronically ill and the elderly) may not be able to afford costly premiums or even have the opportunity to participate in the HPS.

26. CC understands the need for sharing of risks and minimizing the financial burden of premium payment for other individuals. Yet the Government should consider how, where circumstances permit, to assist those most in need of healthcare protection to have easier access to healthcare services, either through lowering the entry barriers to the HPS (including increasing direct subsidies), or by inclusion of those being excluded from the HPS into the public healthcare system.

- **Will “No-Claim Discount” become a consumer detriment in disguise?**

27. The Government proposes to require participating insurers to offer “No-Claim Discount” (NCD) for HPS plans to individuals who make no claim within a certain period. CC understands that the proposal can help to keep premiums lower, and provide incentives for healthy individuals to join the HPS. However, CC has concerns about the appropriateness of adopting for health insurance which concerns human health the NCD approach used for motor vehicle insurance to encourage road safety.

28. CC is concerned that the NCD may constitute a disincentive for consumers to seek medical treatment and make a subsequent claim even when they are sick. Some possible undesirable situations to occur from provision of the NCD include, for instance, consumers postponing medical treatment of illnesses in order to get the NCD upon their policy renewal, or using cheaper treatment with no quality assurance instead of making a claim.

29. CC recommends that the Government considers introducing other modes of premium discounts, for example, to provide one-time discount to attract people to join the HPS in the beginning, to give premium rebates for continuous participation in the HPS, (proportional to the length of staying insured), to grant premium discounts to the young and households to encourage them to purchase health insurance early or to purchase family insurance package.

- **How can existing health insurance provided by employers migrate to the HPS?**

30. With regard to the portability of health insurance plans, the issue lies in whether existing health insurance provided by employers would be able to migrate to the HPS. The decision to migrate or not solely lies with the employers. If the employers choose not to join the HPS, the employees concerned will have to face insurance screening and high premium payments upon their retirement. Yet the proposed HPS has not offered any solutions in this respect.

31. At present, existing employer-provided health insurance accounts for a substantial market share. In CC's view, it will be advantageous for the Government to promote and encourage employers to migrate their existing health insurance to the HPS. It would benefit employees by giving them portability of health insurance coverage on retirement, and would serve a demonstration effect in implementation of the HPS.

32. Notwithstanding that, the Government should formulate appropriate safeguards to prevent employers from reducing employee medical benefits to ensure that employees' healthcare coverage and benefits under the HPS would not be lower than the current level.

Conclusion

33. In sum, CC supports the Government's proposals of introducing a voluntary and government-regulated HPS. CC hopes to see that protection of consumer interests in respect of healthcare services and health insurance will form a core consideration in the design of the details for the HPS.