



Ref: Lv020/14

(By email: richardyuen@fhd.gov.hk)

21 March 2014

Mr Richard Yuen, JP  
Permanent Secretary for Food & Health (Health)  
Food and Health Bureau

Dear Richard

### **Proposed Health Protection Scheme (HPS)**

#### **Executive Summary**

The HKFI believes that the following changes are required in order to make the HPS viable:

- *The Government ought to seek agreement from private hospitals and doctors to make at least some material steps towards package pricing and greater transparency and certainty for the benefit of consumers.*
- *The tried and tested method of underwriting used in the industry (medical underwriting with exclusion/loading) is the most effective method to both encourage the market and to control risk. The cost of the High Risk Pool could then be spent on other improvements e.g. extra funding for the Hospital Authority.*
- *The Government should make it clear in the consultation paper the possible range of premium outcomes not one single figure.*
- *Let the HPS stand and compete in the market and hence give customers a choice.*
- *Transparency should apply to the insurance industry as well as private hospitals and doctors.*

#### **Detailed Commentary**

The Hong Kong Federation of Insurers (HKFI) is the representative body of insurers in Hong Kong with 86 General Insurance Members and 43 Life Insurance Members. Together they contribute more than 90% of the gross premiums written in the Hong Kong insurance market.

The HKFI and the insurance industry fully support the Government's initiative to reform our health care system to enhance the role of the private health care sector, release more resources for other priority areas, contribute to a balanced development of our dual-track health care system and make it more sustainable in the long term. We appreciate the commitment of the Government in taking this forward. As one of the key stakeholders of this important subject, we have set up a Task Force to provide professional advice, relevant market data and information to help your Bureau and your consultant PricewaterhouseCoopers (PWC) to formulate a commercially viable HPS for the benefit of consumers.



註冊有限公司 Incorporated with limited liability  
香港灣仔駱克道 353 號三湘大廈 29 樓  
29/F, Sunshine Plaza, 353 Lockhart Road, Wanchai, Hong Kong  
電話 Tel: 25201868 傳真 Fax: 25201967  
網址 Website: <http://www.hkfi.org.hk> 電郵 E-mail: [hkfi@hkfi.org.hk](mailto:hkfi@hkfi.org.hk)

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Permanent Secretary for Food & Health (Health)  
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Having held significant discussions with your Bureau and PWC, we have seen some progress made in certain areas. However, we remain concerned about a number of fundamental operating principles which are yet to be properly addressed. Without resolving these issues, we do not see the scheme being able to fully achieve its stated goals and aims.

HKFi has a duty to our members and the customers they serve to make our concerns and stance known to the public during the consultation exercise. We believe that the people of Hong Kong should be made aware of the potential shortcomings of the proposed HPS and the impact it might have on their medical insurance protection should it be implemented in its currently proposed format.

In this letter, we will seek to express our concerns on five key areas:

- ♦ Package Pricing / Diagnosis-related groups;
- ♦ Guaranteed Acceptance and the High Risk Pool;
- ♦ Premium;
- ♦ Consumer Choice; and
- ♦ Transparency.

**1. Package Pricing (PP) / Diagnosis-related group (DRG)**

- ♦ The insurance industry wholeheartedly supports a HPS providing proper transparency on both insurance premiums and fees charged by doctors and hospitals. Withholding the implementation of a DRG/PP specific to HPS would go against the objective of empowering consumers to make an informed choice and keeping healthcare more affordable. In fact, the sector has been assured by the Government that DRG/PP would be introduced as a tool for containing medical cost essential to the success of HPS. In the absence of this critical feature, the HPS project could become nothing more than an attempt to introduce a new insurance product, which can be done by way of market agreement with the support of the Insurance Authority.
- ♦ We recognise the technical and operational challenges relating to adopting package pricing and DRGs within the private hospital sector which we would reasonably expect the Government to have known prior to the Second Stage Public Consultation in 2010. We believe more could be done via the HPS scheme to encourage much wider adoption for the benefit of consumers in Hong Kong.

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- ♦ The subsequently proposed "informed financial consent" involving a quote and a pre-authorisation process under the "no gap//known gap" arrangement does not provide any additional certainty or transparency over the current practice of many insurers. What patients are missing is a clear understanding of what the doctor and hospital might charge in terms of the end to end cost of their care. In the absence of pricing transparency, medical inflation will become more acute given the short supply of private hospitals and doctors in Hong Kong.
- ♦ In many markets, doctors charging consumers over and above what is reasonable and customary levels to charge for an operation or what the insurer has agreed to pay for it remains the primary and largest cause of customer complaint. This problem should be addressed through greater transparency and consistency of coding and charging practices by hospitals and doctors. The movement towards greater standardisation of coding and charging is common throughout many developed healthcare systems, including the Australia, France, Germany, Ireland, Japan, Netherlands, Switzerland, UK and the USA.

*HKFI's suggestion: The Government ought to seek agreement from private hospitals and doctors to make at least some material steps towards package pricing and greater transparency and certainty for the benefit of consumers. A way forward is perhaps finding exemplar hospitals and private practices that are able to show successful implementation of PP/DRG. The HFKI will willing to offer professional assistance in developing a toolkit on implementing PP/DRG with relevant government support.*

## **2. Guaranteed Acceptance (GA) / High Risk Pool (HRP)**

- ♦ We are pleased to note the Government's commitment to providing financial support to the HRP to ensure its sustainability. Without such support, the HRP will not be financially sustainable alongside a requirement for guaranteed acceptance, (which removes the standard underwriting tools available to health insurers to maintain a balanced and sustainable pool of insured risk).
- ♦ However, we are doubtful of the sustainable operation of the HRP. There is no guideline on how to define high risk. The only indicator is that if an insurer charges a customer 300% of the standard rate after underwriting, that customer will then be referred to the HRP. Nevertheless, each insurer has individual underwriting standards, portfolio and experience. The lack of objective and transparent guidelines (for common illnesses at the least) will likely give rise to confusions among consumers and complaints from potential policyholders.

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- ♦ From the consumers' perspective, without proper guidelines on the definition of high risk, it will be hard for them to accept the 300% loading. Furthermore, some might be refused to join the HRP but were charged more than 300% of the normal rate. However, these consumers might actually be able to get a cover in the current private medical insurance scheme with exclusions at more affordable levels.
- ♦ The HPS and its HRP may attract those with severe impairment and willing to pay the loading for the HPS cover. However, the sustainability of the HRP will be exceedingly doubtful because HRP by definition will incur more claim costs than the premium it receives. In addition, we are concerned that private hospital beds are insufficient to meet the surging demand.
- ♦ We are also gravely concerned about the assumptions made in the proposal. The estimated cost to be borne by the Government, according to PWC, would be \$4.3 billion. It is evidently clear that \$4.3 bn is merely an estimate but not a budgetary amount. The Government should, in our view, assume the liability and commit the required funding for the policyholder joining the HRP upfront for life. Year by year funding (i.e., pay as you go) is neither acceptable nor sustainable. Assumptions on the reserve built up should be reviewed periodically to ensure there is enough funding to cover the entire HRP liability.
- ♦ Lastly, as the HRP will be run by the Government, we urge the Bureau to come up with a viable business model which can be put to the test. We believe that no one in Hong Kong would like to see a bulky bureaucracy set up by public funds but not delivering concrete results.

*HKFI's suggestion: In fact, we believe that the tried and tested method used in the industry (medical underwriting with exclusion/loading) is the most effective method to both encourage the market and to control risk. It is also less bureaucratic. If the Government insists to follow the guaranteed acceptance and HRP route then the Government should seek to build a commercially viable business model for HRP to ensure its sustainability and come up with practical and transparent guidelines for the information of insurers and consumers. Care should also be taken to streamline the administration of HRP and reduce all the unnecessary operating costs and regulatory redundancy. In view of the degree of uncertainty and a wide confidence interval of the estimates, implementation of the HPS should be conducted in a staged execution by working with pioneer sites to assess merits or otherwise of the HPS offering.*

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### 3. Premium

- ♦ Based on the minimum requirements of the HPS, the Consultant PWC projected a 9% increment on the current average standard premium rate. We are highly skeptical about the feasibility of running the HPS at a mere increase of \$300 premium per insured person. It is even more alarming when the Consultant suggested a possible range of uncertainty of -8% to +52% change in standard premium, dependent on the effective cost control mechanisms. Please note that for many currently insured or uninsured individuals with any medical conditions, the loadings imposed by HPS will lead to even higher premium levels than that in the current market.
- ♦ The Consultant acknowledged that the increase of standard premium rates will be greater for older ages. The announced “average increase” figure could only be achieved through effective cost control mechanisms. We cannot help but ask - what are these effective cost control mechanisms?
- ♦ From the insurance perspective, the most effective way to contain the expenses is through appropriate control of medical costs. Without standardized pricing such as DRG, there are very limited measures that insurers can use to manage medical inflation on behalf of their customers. At the end of the day, the funding for private healthcare comes directly from taxpayers and policyholders, who will jointly finance the resultant medical cost inflation.
- ♦ The FHB acknowledged that some individuals migrating to HPS may face a greater than 9% premium increase. The Bureau has offered two alternatives for these individuals:
  - i. keeping their existing policy (at no additional premium increase); or
  - ii. migrating with existing exclusions (lesser premium increase).
- ♦ For option (i), we do foresee a huge problem when the pool shrinks. We all know that insurance works on the principle of risk pooling. Under the proposed HPS, apart from those plans meeting the HPS requirements, NO insurer is allowed to sell any other existing products to new policyholders. With the shrinking number and ageing issue of policyholders in the pool, the existing plans will not be able to sustain and insurers will be forced to increase premiums. The policyholders concerned will be eventually priced out by market force and ended up without any medical insurance protection.

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- ♦ The second option makes no difference to the existing practice in the market, which offers policyholders a choice of paying less for a policy with exclusions. If this is acceptable to the Government, why can't the existing products be allowed to be sold after the HPS is launched? It leads us to the next question about consumer choice.

*HKFi's suggestion: Government should make sure that the consultation paper will highlight two significant points - (a) the possible range of uncertainty of -8% to +52% change in standard premium; and (b) such range is just one possible variance which may happen on the average premium rate and the range to individual rates may be even wider and the increment higher. Only by receiving such details will the public be able to make an informed decision, based on a more realistic, individual case based scenario, about their support for HPS. The consultant shall support their findings based on a realistic, verifiable, and credible statistical basis.*

#### **4. Consumer Choice**

- ♦ It is of paramount importance that customers do have choices. However, with HPS in place, unhealthy individuals will have no option but to join the HRP and pay 3 times premium or remain in the public system. Whereas in the current situation, they can choose to buy a policy without loading but an exclusion of particular illness for which they could seek treatment within the public system. They can go to the private hospital for majority of the illnesses and the cost is covered by the insurance except for those conditions being excluded.
- ♦ The limitation in choice is particularly noticeable for those consumers with severe impairment. Under the current proposal, they can only join HRP during the first year notwithstanding the fact that they are not familiar with the HPS and probably have lots of questions/uncertainties. Should they miss this window of opportunity, they will be barred from joining any private insurance plans at all forever. Is this a fair system expected by the people of Hong Kong? Is this what the HPS is set out to achieve in the first place?

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- ♦ According to the latest assumption made by the consultant, during the first year of implementation, the HPS is expected to attract 200,000 policyholders. We could not help but question why do we need HPS as the present private health insurance market is already attracting an average of 200,000 new policyholders per annum in the past five years. How can the Government justify spending extra public funds and intervening the market without making a real difference? The Government should also explicitly remind the public in its upcoming consultation paper that HPS is a voluntary, not mandatory, insurance product.
- ♦ The health insurance market is constantly adapting and innovating to meet consumer needs and expectations. There is a risk that establishing minimum criteria will constrain the development of hospital indemnity health insurance products. We believe consumers will benefit more from having a range of choices that provide a broader scale of benefits and services to the customer across a spectrum of price levels. Requiring all plans to follow a minimum set of standards will make medical insurance unaffordable for some consumers.
- ♦ We therefore believe that medical insurers should be allowed to sell other products along side HPS. It helps ensure free competition among medical insurers to continuously improve and expand product offerings to meet the changing needs and affordability of consumers. If the HPS proves to be a good product, the general public would vote for it with their money.

*HKFi's suggestion: Let the HPS stand and compete in the market. All medical insurers should be required to provide such a product and the Government can work together with all stakeholders including insurers and medical service providers to enhance consumer education and provide great transparency in respect of pricing and policy terms. The Government is welcome to use marketing techniques (e.g. branding HPS products as Government approved) and/or advertising to promote the product rather than promoting HPS by excluding other products.*

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## 5. Transparency

- ♦ For the benefit of the policyholders, the medical insurance industry fully embraces transparency. Most, if not all, medical insurers have their premium table and policy terms and conditions posted at their corporate websites. For the benefit of the policyholders, we would like to see similar or greater transparency on HPS.
- ♦ Having said that, we are also mindful that the current proposal only requires transparency on the part of insurance. We all know that for HPS to work, market transparency should apply to both insurers and medical services providers, i.e., doctors and private hospitals should inform patients of the charges in advance of treatment. Please note that cost transparency and cost containment are critical to avoidance of run-away medical cost increases that we have seen in other countries such as the US.
- ♦ As far as insurance is concerned, we are willing to enhance transparency in terms of product information and premium rate.

*HKFI's suggestion: Transparency should apply to the insurance industry as well as private hospitals and doctors. This could be achieved by establishing a clearer requirement for private hospitals to adopt package pricing for common procedures, or potentially developing a sector roadmap regarding the transition to a DRG system for coding and charging of medical treatment and procedures.*

## Conclusion

The HKFI has continually worked with the Bureau and PWC on the HPS for more than three years and have met more than 10 times to provide the necessary support including access to industry data and expertise. Throughout this process we have demonstrated our professionalism and commitment to the success of a commercially viable solution as part of the overall healthcare reform in Hong Kong. This is why we have taken great length in elaborating our serious concerns and providing a suggested way forward based on an objective, thorough assessment of the latest proposal.



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The proposed HPS is a totally new idea without any precedent. For a new initiative affecting the entire population of Hong Kong, present and future, we need to provide flexibility in the system to allow and facilitate review and revision of the framework should it fail to achieve the intended objectives. This is particularly important for HPS as we have already identified a number of deficiencies and risks that hinder success.

In view of the fact that insurance companies are the only party subject to regulation under the HPS, we suggest, instead of establishing the HPS through legislation, it should be done by way of a market agreement among all licensed medical insurance companies in the territory. This will encourage engagement of market players, allow flexibility, and ensure good and sustainable HPS for consumers. It is important for insurance companies to have the option to continue offering their existing and new medical insurance products alongside HPS to enable consumer choice.

This will encourage engagement of market players, allow flexibility and provide peace of mind to the Government by ensuring HPS is available to the consumers. We have seen several highly successful cases achieved by market agreement among insurance companies. For instance, the Employees' Compensation Insurance (ECI) Residual Scheme set up by all ECI underwriters in Hong Kong has been efficiently serving the community since its establishment in 2007. We are confident that medical insurers will be able to join forces and work with the Government to come up with a viable, sensible and sustainable HPS which is free of the above-mentioned inadequacies. We have already made several suggestions to Government on how this could work in practice. Furthermore, such an industry agreement would be cheap and quick to implement (compared for example to the cost and time expended on creating and passing legislation).

On this, we at the HKFI are happy and willing to discuss further with your Bureau and all stakeholders on how to achieve the desired policy objectives without compromising the choice of consumers and jeopardising the current private medical insurance system which is sound and robust.

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We also noted some recent news coverage quoting Dr Ko Wing Man that "HK\$45 billion would be outside the HPS and be used to balance public and private medical services..... HPS is only a supplementary proposal" (The Standard, 14 March 2014). Given the supplementary nature of the proposed HPS, as defined by Dr Ko, we would like to understand in detail about the efficient utilisation of the HK\$45 billion funding to achieve what the Government sets out to do. In the interim, time and effort should not be wasted in a supplementary medical insurance plan without the support of stakeholders and not being embraced by the public.

Yours sincerely



David Alexander  
Chairman  
Task Force on Health Care Reform

c.c. HKFI Governing Committee  
HKFI Member Companies  
The Hon K P Chan  
The Hon Bernard Chan  
Commissioner of Insurance  
Legco's Subcommittee on HPS  
Members of the Working Group on Health Protection Scheme  
Members of the Consultative Group on Health Protection Scheme