

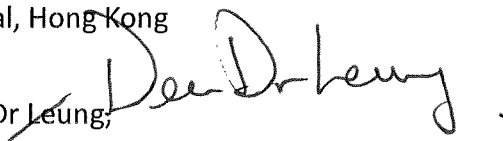


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12 March 2015

Dr Hon Leung Ka-lau
Chairman
Subcommittee on Health Protection Scheme
Legislative Council
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road,
Central, Hong Kong

Dear Dr Leung,



Consultation on Voluntary Health Insurance Scheme (VHIS)

The sustainability of healthcare services and its financing has been deliberated for over two decades and the community so far has not been able to reach consensus on the best way forward. The Federation considers the proposed Voluntary Health Insurance Scheme a positive step on this important subject.

Faced with an ageing population as is the case in other developed economies, retirement protection, particularly for those elderly in need, has become a key concern for society. The proposed Standard Plan with its 12 minimum requirements would be a welcome improvement to the individual hospital indemnity insurance schemes currently available commercially in Hong Kong. It allows those in an older age bracket and with pre-existing medical conditions to pay a reasonable premium for their coverage. The establishment of the High Risk Pool (HRP) is a necessary adjunct if we expect insurers to underwrite those with pre-existing and often chronic medical problems.

We have some significant concerns, however:

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1. Data on the Current Individual Indemnity Hospital Insurance Sold

The consultation document states that about 30% of our population (2011) is covered by private indemnity hospital insurance. Our sources, however, indicate that 54% of these policy holders still utilise the public system when they need to be hospitalised. We therefore have doubts about the coverage or extent of the coverage available through these insurance schemes, and we suspect many of them, especially the "daily cash-upon hospitalisation" schemes, cannot be comparable to the VHIS. If this is the case, much of the data in the consultation document will be incorrectly presented i.e. the average premium of \$3,300.

Furthermore, the expense loadings in these products have been discussed in detail. In the last five years, this loading has dropped rapidly from an average of 44% in 2009 to 31% in 2013, and needs careful scrutiny. Whatever the real number is, it is still on the high side for a true indemnity product and will affect the attractiveness of VHIS as this percentage is used to project the average premium for VHIS (i.e. \$3,600).

2. Current and Potential Policyholders

The report gives little data on this crucial point. What we do know is that very few elderly people currently have hospital insurance and therefore the current policyholders tend to be relatively young and in good health. We can surmise that the proposed VHIS will be particularly attractive to a much older segment of the population and greater numbers of elderly will want to purchase the VHIS scheme. This shift in potential buyer profile is a crucial factor in whether the proposed VHIS is sustainable. The profiles of both existing and potential policyholders by age group as well as the related premiums at different age bands are extremely crucial to the scheme's long-term viability. The average premium is only useful as long as the buyer profiles remain similar, which we believe, will not be the case for VHIS when many more older people than younger people clamour to join the VHIS scheme.

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3. The Elderly

A large percentage of hospital beds are currently used by people aged over 65 and, in a fast aging society, this percentage will only increase in the years to come. As mentioned, the major beneficiaries of VHIS will be those over 65 and only very few of them are currently covered by hospital indemnity insurance of any kind. Those previously on employer group plans typically lose their coverage upon retirement. For those better-off elderly who currently use private hospitals in Hong Kong, they primarily do so on a pay-as-you-go basis although a few have expensive international hospital insurance with coverage in Hong Kong. These people, especially those with significant medical issues, will flock to VHIS during the one year window that guarantees a premium cap of no more than 200% of standard rate.

There is a need for an analysis of the inevitable major shift in the profile of the scheme purchasers. This will help assess the premium for different age bands in a more realistic way and in particular, the obligation of the Government in supporting the HRP. Because of higher premiums and greater claims per person within the older age ranges, the impact, we anticipate, will be greater than projected in the document, especially in view of the possible subsidy in the HRP to be spent on those that used private hospitals in the past and continue to use them after subscribing to VHIS.

4. Group Plans

The report proposes little change in Group plans except that an option to convert to individual plans at retirement must be included and that this option must be at standard rates. The Federation welcomes this concept as a move to introduce an element of post-retirement medical benefits in Hong Kong where such benefits are currently rare.

However we see no estimates in the report of how much this conversion option will cost, and who will pay for it. An option such as this will be heavily selective against, for example, by those with pre-existing medical problems. This may make the option quite expensive and may encourage some employers to discontinue their plans.

We would like to study and understand the analysis performed by the project team on this point.

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5. Capacity of the Private Hospital system

We share the concern over the imbalance of utilisation of public and private hospital services. However, private hospital services are operating at near to full capacity now. It is difficult to see how the sector can cater to increased demand if the VHIS scheme attracts many more new policyholders without an increase in queuing time for beds and operating theatres and an accompanying deterioration in standards of services. Without substantial expansion of existing and new private hospital facilities, waiting times will significantly be lengthened which will remove a key incentive for turning to the private system in the first place.

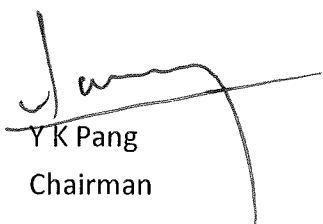
Voluntary individual indemnity hospital insurance is a difficult business to underwrite, especially at older ages. The insurance industry in Hong Kong has limited experience in this market, again particularly in the older age brackets. It is thus important that the VHIS is well designed and planned so that the High Risk Pool will not be overwhelmed by those older but wiser consumers of Hong Kong who select the VHIS as it represents a tremendous bargain and public subsidy for them.

In addition, we would like to see better data on individual hospital indemnity insurance currently sold in Hong Kong and considerably more data on the profile of those projected to purchase VHIS, especially the elderly. With that information, it would be easier to judge if this programme is a good use of Hong Kong's public funds.

The Federation believes that the concept of VHIS will help to recalibrate the public-private balance. Its affordability and sustainability will be essential to incentivise subscription, especially among the young and healthy who will put more in than they take out as a collective group in their younger years.

The Federation, as always, is more than happy to help and contribute to the discussion and strategy on this vital subject going forward. Please do not hesitate to contact Mr Louis Pong, CEO of the Federation for further clarification and / or assistance.

Yours sincerely,



YK Pang
Chairman