



中華人民共和國香港特別行政區政府總部食物及衛生局
Food and Health Bureau, Government Secretariat
The Government of the Hong Kong Special Administrative Region
The People's Republic of China

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9 March 2015

Ms Maisie LAM
Clerk to Subcommittee on Health Protection Scheme
Panel on Health Services
Legislative Council Secretariat
Legislative Council Complex
1, Legislative Council Road
Central

Dear Ms LAM,

Panel on Health Services
Subcommittee on Health Protection Scheme
Follow-up to the meeting on 6 February 2015

I refer to your letter of 27 February 2015. The requested supplementary information is provided at **Annex**.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Sheung-yuen LEE'.

(Sheung-yuen LEE)
for Secretary for Food and Health

Encl.

**Supplementary information requested by the meeting of
Subcommittee on Health Protection Scheme
of the Panel on Health Services on 6 February 2015**

Item (a) -

Address the concern that existing group indemnity hospital insurance policies in the market were not limited to policies being held by employers for the benefit of their employees. According to the Consultation Document on Voluntary Health Insurance Scheme, group hospital insurance policies, which were confined to those policies purchased by employers for their employees as staff benefits, were not required to comply with the Minimum Requirements upon the implementation of the proposed Voluntary Health Insurance Scheme.

Administration's response

In the context of the Voluntary Health Insurance Scheme (VHIS) proposal, a “group indemnity hospital insurance policy” means a policy being held by employers for the benefit of their employees, i.e. where there exists an employment relationship between a policyholder and a person insured under the group policy. As mentioned in the VHIS consultation document, we propose to exempt group indemnity hospital insurance from the Minimum Requirements because the beneficiary of the policy is the employee (including his/her dependants in some cases) instead of the employer, despite the fact that the cost of purchasing the policy is being borne by the employer. If there is no exemption, some of the employers may have to pay extra premiums for the enhanced benefits of VHIS-compliant products. It is possible that some of these employers would, out of budget constraint, opt to drop the policy altogether to the detriment of employees' interests.

2. We are aware that there are certain types of health insurance policy in the market that are being held or arranged by an association or a group for the benefit of its individual members. So long as the policies concerned pertain to indemnity hospital insurance nature and are issued on an individual basis (for example, if the association or group simply acts as an arranger for the sake of bulk purchase discount), they would be regarded as individual policies which should be subject to the Minimum Requirements. In the case where those policies are issued on a group basis with a group or association acting as the policyholder of a group policy, which should be uncommon by our understanding, we consider that

such policies should not be exempted from the Minimum Requirements unless there exists employment relationship between the policyholder and the persons insured.

Item (b) -

Provide an actuarial analysis on the estimated impact on premiums if employer-provided group indemnity hospital policies would be subject to the Minimum Requirements.

Administration's response

3. Although the group market for indemnity hospital insurance products shares similar features with the individual market in many respects, there are notable differences in market structure and practices that must be properly considered when an actuarial analysis is performed to estimate the impact on group premiums if the group market is also subject to the Minimum Requirements. Overall speaking, the group market has a lower expense loading and the proportion of younger population (who are at working age) amongst the insured people are higher than that of the individual market. More specifically, the differences in market structure and practices between the group market and individual market would lead to some differences in the setting of pricing factors in the actuarial analysis, as well as the magnitude of impact for those factors that are relevant in both the group and individual markets.

4. There are pricing factors that are relevant to the individual market but largely irrelevant or insignificant for the group market. A notable example is the coverage of pre-existing conditions. Under the migration arrangement proposed for policyholders of individual indemnity hospital insurance policies, when migrating to a VHIS policy, migrants may either opt for maintaining their case-based exclusions without re-underwriting by the insurers, or removing such exclusions subject to re-underwriting by the insurers. The former case does not affect standard premiums as no extra claims cost is incurred. Yet in the latter case, extra claims cost would arise. If the insurers decide to finance the extra claims cost by increasing the overall premium level, instead of charging premium loading on individual migrants, the standard premiums may become higher. In other words, in such a scenario, the extra claims costs would be shared by all insured persons through increase in standard premium. Nevertheless, in the case of the group market, this pricing factor is irrelevant as pre-existing conditions are commonly covered by group indemnity hospital insurance policies.

5. There is a set of pricing factors that is relevant to both the group market and individual market, but the magnitude of impact is smaller in the case of group market. Both the coverage of chemotherapy/radiotherapy and advanced diagnostic imaging tests are considered largely novel features for actuarial pricing of the individual market, although they exist in some individual indemnity hospital insurance products with modest benefit levels. In the group market, the coverage of chemotherapy / radiotherapy and advanced diagnostic imaging tests is found to be relatively more common. The upward premium impacts of making these two benefit items as part of the Minimum Requirements would thus be smaller. Besides, the coverage of endoscopy in ambulatory setting with packaged pricing under VHIS Standard Plan, which would help control claims cost and hence premiums, would likewise have less remarkable premium impact in the group market. It is because many group indemnity hospital insurance products already allow for conducting endoscopy in ambulatory setting. Therefore, the premium reduction in this regard is less remarkable than in the individual market.

6. Separately, there exists a pricing factor which only applies to the group market, namely the Conversion Option proposed for group indemnity hospital insurance. Under the current proposal of the VHIS, insurers would be required to offer a Conversion Option to employers as an elective component in the group indemnity hospital insurance products offered to the employers. The employers would be allowed to purchase the group policy with the Conversion Option component. If an employer decides to purchase the group policy together with the Conversion Option, an employee covered by such group policy can exercise the Conversion Option upon retirement or leaving employment so that he/she can switch to an individual VHIS Standard Plan at the same underwriting class as the group policy without re-underwriting, provided that the employee has been employed for a full year immediately before transfer to the individual VHIS Standard Plan. Since employees exercising Conversion Option would not be re-underwritten, insurers would likely raise the group premium to cover the cost involved. Nevertheless, the upward impact on annual group premium is likely to be mild as normally only a small fraction of the employees are eligible in a year. Moreover, a considerable proportion of eligible employees may not choose to exercise the Conversion Option because they may have obtained coverage from another employer after leaving their current employment, or that they may not wish to purchase an individual Standard Plan.