



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

Our Ref. : FHB/H/1/5/4/2 Pt. 16  
Your Ref. : CB2/PS/2/12

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14 October 2015

Ms Maisie LAM  
Clerk to Subcommittee on Health Protection Scheme of  
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 4 May 2015**

At the captioned meeting, the Administration was requested to provide supplementary information on the following –

- (a) in respect of the price impact to be brought about by the requirement of covering pre-existing medical conditions on the premiums to be paid by insured persons with standard-risk, engage the insurance sector to analyze the market data and provide information on the respective percentages of policyholders who were of standard-risk and were charged the “normal” premium, and policyholders who were of higher-risk and were charged (i) the “normal” premium yet with reduced coverage due to exclusion of pre-existing medical conditions; and (ii) premium loadings over and

above the “normal” premium due to their pre-existing medical conditions; and

- (b) work out a formula for calculating the excess medical inflation rate for the purpose of projecting the impact of the Voluntary Health Insurance Scheme (“VHIS”) on the average annual premium; and verify, on the basis of historical data of the parameters involved, whether the projected premium growth rate of individual indemnity hospital insurance products (ward level) would average at 3.5% per annum (in excess of the general inflation rate) during the projection horizon of 2016 to 2040 with the implementation of VHIS as estimated by the Consultant.

2. The requested supplementary information is provided at **Annex** for information.

Yours sincerely,



( Bill LI )

for Secretary for Food and Health

Encl.

**Supplementary information requested by the  
Subcommittee on Health Protection Scheme of the  
Panel on Health Services at the meeting on 4 May 2015**

Item (a) –

*In respect of the price impact to be brought about by the requirement of covering pre-existing medical conditions on the premiums to be paid by insured persons with standard-risk, engage the insurance sector to analyze the market data and provide information on the respective percentages of policyholders who were of standard-risk and were charged the “normal” premium, and policyholders who were of higher-risk and were charged (i) the “normal” premium yet with reduced coverage due to exclusion of pre-existing medical conditions; and (ii) premium loadings over and above the “normal” premium due to their pre-existing medical conditions;*

Administration’s response

As part of the background research work underlying the building of the actuarial pricing model and other assessments related to the Health Protection Scheme (currently named Voluntary Health Insurance Scheme (VHIS)), the independent consulting firm appointed by Food and Health Bureau (the Consultant) conducted a survey of insurance companies in Hong Kong on their market practices from the latter part of 2012 to the early part of 2013. The survey covered different aspects of health insurance operation including underwriting process, product features, claims administration, and distribution channels. A total of eight insurance companies responded to the survey. The Consultant estimated that they constituted a market share of about 70%, and hence considered that the survey findings representative of actual market situation.

2. The survey findings reveal that it is common for the local insurance companies to make use of case-based exclusion clauses and premium loading to manage their risks when accepting subscriptions from people with pre-existing health conditions or other health risk profiles. Amongst the insurance companies responded to the survey, the proportion of health insurance policies in force as at end-2011 with specific pre-existing health condition(s) stated for exclusion from policy coverage mostly ranged from 7% to 15%, only with one notable exception reaching 20%. Meanwhile, the proportion of health insurance policies in force with premium loading applied ranged from 5% to 8%. In other words, the

majority of the health insurance policies in force as at end-2011 of the insurance companies under survey were only charged standard premium.

Items (b) –

*Work out a formula for calculating the excess medical inflation rate for the purpose of projecting the impact of the Voluntary Health Insurance Scheme (“VHIS”) on the average annual premium; and verify, on the basis of historical data of the parameters involved, whether the projected premium growth rate of individual indemnity hospital insurance products (ward level) would average at 3.5% per annum (in excess of the general inflation rate) during the projection horizon of 2016 to 2040 with the implementation of VHIS as estimated by the Consultant.*

Administration’s response

3. In projecting the long-term impact of the VHIS, including the premium growth rate of insurance products under the VHIS regime, the Consultant developed a sophisticated projection model that encompassed major parameters including excess medical inflation (i.e. medical inflation rate in excess of general inflation rate), healthcare utilization growth and pattern, expense loading, price sensitivity of consumers, etc.

4. As far as excess medical inflation is concerned, the Consultant found it technically challenging to predict its outturn with a reasonable degree of precision over a projection horizon lasting for 25 years. Firstly, there is considerable uncertainty regarding how some major influencing factors would interact with medical cost movements, such as advancement in medical technology, innovation in cost-effective mode of service delivery, and change of consumer behaviours in terms of lifestyle and disease prevention. Secondly, there is a lack of direct reference to the past trend in the absence of an official or commonly used medical inflation measurement in Hong Kong. Thirdly, it is technically difficult to estimate with precision the interaction between medical inflation and the impacts of the VHIS as some of the scheme features such as promotion of ambulatory care are designed to keep medical costs under better check.

5. Against the constraints mentioned above, the Consultant considered it more appropriate to view the estimates of long-term excess medical inflation as working assumptions for the purpose of projecting the long-term impact of the VHIS. This notwithstanding, these assumptions were based on the Consultant’s professional analysis of local market data such as the claims database held by the Hong Kong Federation of Insurers

(HKFI), and overseas market data such as international survey results in regard to global medical cost trend. The Consultant then came up with the working assumption of excess medical inflation averaging at 3.6% per annum under the baseline scenario (i.e. without the VHIS implemented) during the projection horizon from 2016 to 2040. The corresponding working assumptions under the forecast scenarios (i.e. with the VHIS implemented) ranged from 2.1% to 4.1%, depending on the magnitude of the VHIS's impact on medical cost containment.

6. As regards the Consultant's projection that the average premium of individual indemnity hospital insurance products (ward level) would grow by an average of 3.5% per annum (in excess of the general inflation rate) from 2016 to 2040, the Food and Health Bureau considered the Consultant's projection broadly reasonable and acceptable. In view of the general inflation rate which have hovered at around 2-4%<sup>1</sup> in recent years, and the latest estimate by HKFI that the growth rate of average premium of health insurance has been around 5% per annum in recent years<sup>2</sup>, the long-term premium growth rate as projected by the Consultant is considered broadly consistent with the current market situation.

**Food and Health Bureau  
October 2015**

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<sup>1</sup> According to the statistics compiled by Census and Statistics Department, from 2009 to 2014, the implicit price deflator for gross domestic product and the Composite Consumer Price Index rose by an average of 2.5% and 4.1% respectively.

<sup>2</sup> Source: Media release by HKFI on 17 September 2015, accessible online at <http://www.hkfi.org.hk/#!/media-release/358>.