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Panel on Health Services

Background brief prepared by the Legislative Council Secretariat for the meeting on 19 March 2018

Voluntary Health Insurance Scheme

Purpose

This paper provides background information and summarizes the concerns of the members of the Panel on Health Services ("the Panel") on the Voluntary Health Insurance Scheme ("VHIS").

Background

2. The Government conducted two stages of public consultation exercise on healthcare reform in 2008[1] and 2010[2] respectively to look for ways to maintain the long-term sustainability of the healthcare system. While the consultation exercise revealed strong public resistance to any supplementary healthcare financing options of a mandatory nature, the public expressed support for the introduction of a voluntary and government-regulated private health insurance scheme to enhance transparency, competition and efficiency of private health insurance for the provision of an alternative to those who are willing and may afford to pay for private healthcare services.

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[1] In March 2008, the Government put forth a package of healthcare service reforms and six possible supplementary healthcare financing options in the First Stage Healthcare Reform Consultation Document entitled "Your Health Your Life". The six options for addressing the long-term sustainability of healthcare financing were (a) social health insurance (i.e. mandatory contribution by the workforce); (b) out-of-pocket payments (i.e. increase user fees for public healthcare services); (c) medical savings accounts (i.e. mandatory savings for future use); (d) voluntary private health insurance; (e) mandatory private health insurance; and (f) personal healthcare reserve (i.e. mandatory savings and insurance).

[2] In October 2010, the Government published the Healthcare Reform Second Stage Public Consultation Document entitled "My Health My Choice" in which a voluntary and government-regulated private health insurance scheme was proposed for public consultation.

3. Subsequently, the Government conducted another four-month public consultation exercise in December 2014 to gauge public views on the Consultation Document on Voluntary Health Insurance Scheme ("the Consultation Document") which put forth the detailed proposals for implementing VHIS to enhance the accessibility to and quality of hospital insurance[3] and in turn help address the balance of the public-private healthcare sectors[4] and enhancing the long-term sustainability of the healthcare system as a whole. It was proposed that all individual indemnity hospital insurance products would be required to meet or exceed a proposed set of 12 Minimum Requirements upon the implementation of VHIS. The proposed Minimum Requirements for a Standard Plan[5] include:

Improving accessibility to and continuity of insurance

(a) guaranteed renewal without re-underwriting;

(b) no "lifetime benefit limit";

(c) coverage of pre-existing conditions subject to a standard waiting period and reimbursement arrangement during the waiting period (i.e. no coverage in the first year; 25% reimbursement in the second year; 50% reimbursement in the third year; and full coverage from the fourth year onwards);

(d) guaranteed acceptance with premium loading capped at 200% of standard premium[6] for (i) all ages within the first year of implementation of VHIS; and (ii) those aged 40 or below starting from the second year of implementation of VHIS;[7]

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[3] "Hospital insurance" refers to the insurance business falling under Class 2 (sickness) of Part 3 of the First Schedule to the Insurance Companies Ordinance (Cap. 41) which provides for benefits in the nature of indemnity against risk of loss to the insured attributable to sickness or infirmity that requires hospitalization.

[4] According to the Administration, around 88% of inpatient services (in terms of number of bed days) are provided by public hospitals.

[5] Standard Plan refers to an individual indemnity hospital insurance product that meets all (but not exceeding) the 12 Minimum Requirements.

[6] Standard premiums are defined as premiums determined by insurers to be charged on individuals with standard risk, i.e. without premium loading.

[7] An High Risk Pool, which is the key enabler of the Minimum Requirement on guaranteed acceptance with premium loading cap for supporting VHIS's goal to improve access to individual indemnity hospital insurance, was proposed to be set up by legislation to accept policies of Standard Plan of which the premium loading is assessed to be 200% or more of the standard premium offered by the insurer. Under the proposal, the claims cost arising from the acceptance of high-risk subscribers will be met by their own premiums and Government funding for the High Risk Pool. It is estimated that the total cost to the Government for funding the operation of the High Risk Pool for a 25-year period from 2016 to 2040 would be about $4.3 billion (in 2012 constant prices).

(e) portable insurance policy with no re-underwriting when changing insurers, provided that no claims were made in a certain period of time immediately before transfer of policy;

Enhancing quality of insurance protection

(f) coverage of hospitalization and prescribed ambulatory procedures;

(g) coverage of prescribed advanced diagnostic imaging tests, subject to a fixed 30% co-insurance, and non-surgical cancer treatments up to a prescribed limit;

(h) minimum benefit limits;

(i) no cost-sharing (deductible or co-insurance) by policyholders except the fixed 30% co-insurance for prescribed advanced diagnostic imaging tests; and an annual cap of $30,000 on cost-sharing by policyholders (excluding excess amount payable by policyholders if actual expenses exceed benefit limits);

Promoting transparency and certainty

(j) budgetary certainty for policyholders through Informed Financial Consent and no-gap (i.e. no out-of-pocket payment is required) or known gap (i.e. a pre-determined amount of out-of-pocket payment) arrangement for at least one procedure or test;

(k) standardized policy terms and conditions; and

(l) transparent information on age-banded premiums through easily accessible platform.

It was proposed that, as a financial incentive for VHIS, tax reduction would be introduced for premiums paid for individual indemnity hospital insurance policies owned by taxpayers covering themselves and/or their dependants[8] that comply with the Minimum Requirements; and premiums paid for Voluntary Supplements purchased by individuals on top of their group indemnity hospital insurance policies.

[8] It was proposed that the definition of dependants be aligned with that of the existing tax code for claiming tax allowance, i.e. spouse, child, dependent parent, dependent grandparent, dependent brother or sister, etc.

4. In January 2017, the Administration released the Consultation Report on VHIS. According to the Administration, there is broad support for the concept and policy objectives of the proposed VHIS. While there is support for most of the Minimum Requirements, there are divergent views on those relating to guaranteed acceptance with premium loading cap which have to be underpinned by a High Risk Pool, coverage of pre-existing conditions and portable insurance policy. Taking into account the aims of VHIS, its extensive impact on the insurance sector and the views collected during the public consultation exercise, the Administration decides to first implement a VHIS with 10 Minimum Requirements[9], with refinements to some of these Minimum Requirements and related proposals, through a non-legislative framework in collaboration with the Insurance Authority. The plan of the Administration is to finalize the VHIS practice guidelines and details of the tax deduction arrangement in 2018.

Deliberations of the Panel

5. The Panel discussed the Consultation Report on VHIS and the way forward for the implementation of VHIS at its meeting on 16 January 2017. The deliberations and concerns of members are summarized in the following paragraphs.

Refinements to the Minimum Requirements

6. Members noted that under the refined VHIS, it would be legally permissible for insurers to issue and sell non-compliant individual hospital insurance products in the market. In addition, the two Minimum Requirements in relation to guaranteed acceptance with premium loading cap and portable insurance policy, as well as the proposal of establishing a High Risk Pool would be re-examined at a later stage taking into account, among others, the experience of actual implementation of VHIS. Some members considered that the High Risk Pool, which was a key enabler of the Minimum Requirement of guaranteed acceptance, was an important feature of VHIS for relieving the pressure on the public healthcare system. A VHIS without the Minimum Requirements of guaranteed acceptance and portable insurance policy could not improve high-risk individuals' access to private hospital insurance. Question was raised about the uptake of the VHIS-compliant products. Some other members, however, held the view that it was a prudent approach to implement VHIS with

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[9] The 10 Minimum Requirements are (a) guaranteed renewal; (b) no lifetime benefit limit; (c) coverage of hospitalization and prescribed ambulatory procedures; (d) coverage of prescribed advanced diagnostic imaging tests and non-surgical cancer treatments; (e) budget certainty (i.e. no-gap/known-gap and informed financial consent); (f) standardized policy terms and conditions; (g) premium transparency; (h) minimum benefit limits; (i) cost-sharing restrictions; and (j) coverage of pre-existing conditions.

the 10 Minimum Requirements with strong support from the community as the number of high-risk individuals who were able and willing to purchase individual hospital insurance was relatively small.

7. The Administration stressed that the 10 Minimum Requirements such as coverage of prescribed ambulatory procedures; coverage of non-surgical cancer treatments; the minimum benefit limits to provide reasonable coverage for general ward in average-priced private hospitals; and the budget certainty requirements including Informed Financial Consent and no-gap or known-gap arrangement for at least one procedure or test could address the existing shortcomings in market practices and hence, enhance quality of insurance protection. It was noted that in the course of formulating the detailed proposals of VHIS, private hospital insurance products with features similar to the 10 Minimum Requirements had started to emerge in the market. The uptake of individual hospital insurance products had also increased. That said, the projected uptake could not be accurately estimated at this stage.

8. Since participation of the young and healthy people was essential to ensure the successful implementation of VHIS, some members were concerned about how these people would be incentivized to take out insurance under VHIS. They noted that many young people, who newly joined the workforce and were more likely to be healthy, might not benefit from tax deduction for the VHIS-compliant products. According to the Administration, the Minimum Requirement of guaranteed renewal of policies without re-underwriting could provide the insured young people life-long insurance cover and maintain them in an underwriting class with a lower premium even they later developed health conditions.

9. There was a concern that many elders and chronic disease patients, who accounted for the largest proportion of patients of public hospital services, would not be able to afford the premium of VHIS-compliant products. The Administration advised that it was expected that after the launch of VHIS, middle-income individuals were more likely to subscribe to VHIS-compliant products and use private healthcare services. Separately, there would be an increase use of the diagnostic, elective and non-emergency therapeutic procedures of the private healthcare sector. If more people were willing to make use of private healthcare services through VHIS, resources could be released in the public sector to reduce waiting time.

Re-examination of the High Risk Pool proposal

10. While some members were supportive to the setting up of a High Risk Pool under VHIS to facilitate high-risk individuals who often encounter difficulties in obtaining hospital insurance under the existing market practice to

purchase private hospital insurance, some other members had strong reservation on the proposal which required injection of public money. Members were concerned about the timetable for the Administration to complete the re-examination of the proposal of establishing a High Risk Pool under VHIS.

11. The Administration advised that apart from the concern of the insurance industry over the financial sustainability of the High Risk Pool, some members of the public had concerns on, among others, how far the High Risk Pool proposal would affect the uptake of private hospital insurance. Time was needed to update the relevant figures for funding the operation of High Risk Pool and gauge the views of the relevant stakeholders when re-examining the High Risk Pool proposal.

Migration arrangements

12. Question was raised about whether policyholders of existing individual hospital insurance policies could migrate to VHIS-compliant policies of the same insurer without being re-underwritten. The Administration advised that its proposal was to allow policyholders to migrate to their insurers' VHIS-compliant policies at the same underwriting class without re-underwriting if the benefit items of the policies were the same. It would discuss the proposal with the relevant stakeholders.

Regulatory agency

13. Members noted that the Food and Health Bureau ("FHB") would issue a set of VHIS practice guidelines based on the refined Minimum Requirements, and the Insurance Authority, being the regulator of the insurance industry, would issue a Guidance Note based on the principle of fair treatment of clients and other relevant considerations to provide guidance on various aspects of underwriting individual hospital insurance business, under which insurers would be recommended to comply with the VHIS practice guidelines issued by FHB. Upon the implementation of VHIS, the future VHIS Office to be established under FHB might refer to the Insurance Authority those cases amounting to misconduct in the Insurance Companies Ordinance (Cap. 41). Questions were raised about whether the VHIS Office would consider the definition of cases amounting to "misconduct" and the operation of the referral mechanism.

14. According to the Administration, "misconduct" was defined in the Insurance Companies Ordinance to mean, amongst other things, an act or omission relating to the carrying on of a class of insurance business which, in Insurance Authority's opinion, was or was likely to be prejudicial to the interests of policyholders or potential policyholders or the public interest. If the Insurance Authority considered that the failure amounted to misconduct, it could

consider taking appropriate disciplinary actions for the misconduct, including the order of a pecuniary penalty, reprimand, or even revocation or suspension of the authorization of the insurer. An example of cases which the VHIS Office might refer to the Insurance Authority was where an insurer marketed a non-VHIS-compliant product as VHIS compliant and misled consumers in purchasing it.

Use of the $50 billion earmarked for healthcare reform

15. Members noted that it was announced in the 2015-2016 Budget that out of the $50 billion earmarked in the 2008-2009 Budget to support healthcare reform, funds would be injected into the High Risk Pool under VHIS, and tax concession would be provided for subscribers to regulated insurance products. Members were concerned about the use of that $50 billion. There were views that part of the fund should be used for promoting preventive care and primary care, including the introduction of public-private partnership ("PPP") in this regard, as well as the development of Chinese medicine.

16. The Administration advised that in the face of an ageing population, an objective of the healthcare reform was to address the public-private imbalance in provision of hospital services through various measures. In this regard, $10 billion had been allocated for setting up the Hospital Authority PPP Fund. To help alleviate the current pressure on the public healthcare sector, a loan of $4,033 million had been offered to the Chinese University of Hong Kong for developing a non-profit-making private teaching hospital. Separately, a provision of $200 billion had been earmarked for the implementation of the 10-year public hospital development plan to ensure the development of an appropriately balanced healthcare system with capacity and capability for delivering holistic services to members of the public. The Government would also finance the construction of the proposed Chinese medicine hospital. A number of initiatives, such as the Colorectal Cancer Screening Pilot Programme, had also been introduced by the Government to enhance health promotion and primary care services.

Recent developments

17. On 1 March 2018, the Administration announced the details of VHIS, including the scope of protection required of individual indemnity hospital insurance products and the code of practice for compliance by participating insurance companies. According to the Administration, insurance companies participated in VHIS will offer hospital insurance plans that are certified by FHB. Such products should meet the conditions or offer the coverage of guaranteed renewal up to 100 years of age (without re-underwriting); no

"lifetime benefit limit"; 21-day cooling off period; and coverage extended to unknown pre-existing conditions; ambulatory procedures, including endoscopy; and inpatient psychiatric treatment, etc. To provide an incentive for the public to purchase certified plans under VHIS, the Government will amend the law to allow tax deduction for relevant premiums paid by a person for himself/herself and their dependants. The deduction ceiling is $8,000 per insured person per year. There is no cap on the number of dependants who are eligible for tax deduction. The tax deduction arrangement will be implemented from the following year of assessment after the passage of the relevant bill.

Relevant papers

18. A list of the relevant papers on the Legislative Council website is in the **Appendix**.

Council Business Division 2
Legislative Council Secretariat
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Appendix

Relevant papers on the Voluntary Health Insurance Scheme

Committee	Date of meeting	Paper
Panel on Health Services	16.1.2017 (Item III)	Agenda Minutes CB(2)1704/16-17(01)
	16.10.2017 (Item IV)	Agenda Minutes

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