

**For discussion on
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Legislative Council Panel on Health Services

Update on the Voluntary Health Insurance Scheme

PURPOSE

This paper updates Members on the implementation of the Voluntary Health Insurance Scheme (VHIS).

BACKGROUND

2. As part of the Food and Health Bureau (FHB)'s effort in adjusting the public-private healthcare balance, the Government introduced the VHIS on 1 April 2019 to regulate the individual indemnity hospital insurance products (IHIP) and improve market transparency, providing consumers with greater confidence in purchasing health insurance and using private healthcare services when in need, thereby alleviating pressure on public hospital services in the long run.

3. From December 2014 to April 2015, the Government conducted a Public Consultation on the VHIS. As revealed by the consultation outcomes in 2017, there was broad support for the concept and policy objectives of the VHIS in general. Prior to the full implementation of VHIS, the Government consulted this Panel on the way forward of VHIS and the related legislation for tax deduction in January 2017 and March 2018 respectively.

4. Certified Plans under VHIS have a number of standard features for increasing consumers' confidence in purchasing hospital insurance, thereby facilitating their use of private healthcare services when needed. The key features of Certified Plans include:

- (a) guaranteed renewal up to the age of 100 regardless of change in the health conditions of the insured persons (without re-underwriting);
- (b) no limit on “lifetime benefit”¹;
- (c) coverage extended to cover unknown pre-existing conditions, day case surgical procedures (including endoscopy), diagnostic imaging tests, non-surgical cancer treatments, etc; and
- (d) transparency on the premiums of Certified Plans, with all the premium schedules being accessible on the official VHIS website (<https://www.vhis.gov.hk/>).

5. Taxpayer who or whose spouse is the policyholder of a policy issued under a Certified Plan of VHIS may claim tax deductions up to \$8,000 per insured person for the premiums paid in relation to the Certified Plan. The insured person of the Certified Plan should be the taxpayer or any specified relatives, which cover the taxpayer’s spouse and children, and the taxpayer’s or his/her spouse’s grandparents, parents and siblings. There is no cap on the number of specified relatives.

LATEST PROGRESS

6. As of 31 March 2021, the number of VHIS policies reached 791 000. Among these policies, 71% were migrated from policies which were in force before the implementation of VHIS on 1 April 2019. The remaining 29% were newly insured. From April 2019 to March 2021, 97% of the applications for policy coverage were accepted, of which more than 89% were accepted without any premium loading and/or case-based exclusion.

7. According to the estimate by an independent consultant before the launch of VHIS, about 1 million people would purchase Certified Plans in the first two years of implementation of the scheme. However, affected by the social events and COVID-19 situation, the performance of the overall medical insurance market has experienced a slow-down since the latter part of 2019. That said, the relative performance of the VHIS segment in the

¹ No limit on “lifetime benefit” means that the benefits will be continued until the insured person reaches 100 years of age.

market of individual IHIP is encouraging. According to a survey conducted by FHB with the insurance companies participating in the scheme (i.e. VHIS Providers), the number of VHIS policies increased by about 52% (or 269 000) over the preceding 12 months, reaching 791 000 as at end-March 2021. Comparatively, the increase for the entire individual IHIP portfolio (covering VHIS and non-VHIS policies) of these VHIS Providers in 2020 was only 5%. The survey also reveals that VHIS policies accounted for 77% of market growth for the entire individual IHIP portfolio of the VHIS Providers in 2020.

8. Among those insured by the 791 000 policies as at end-March 2021, 53% were aged below 40 and 34% were aged below 30. This profile is in line with the Government's policy to encourage people to get insured at younger age with fewer pre-existing conditions in order to enjoy the protection of guaranteed renewal up to the age of 100 regardless of subsequent change in the health conditions.

9. The VHIS market has been offering diversified products to cater for different needs, which are welcomed by the consumers. As of 31 May 2021, there were 33 insurance companies registered as VHIS Providers, altogether offering 78 Certified Plans (including 33 Standard Plans and 45 Flexi Plans) with 296 product options for consumers. Among those insured by the 791 000 policies, most (97%) purchased Flexi Plans, with the remaining purchased Standard Plans.

10. One of the prime objectives of VHIS is to ensure that the Certified Plans could provide sufficient protection for the insured persons when they use private healthcare services. We are pleased to note that according to the statistics for 2020, most of the insurance claims (94%) were successful. About 36% received full reimbursement, 66% had a reimbursement ratio of 90% or above, and 79% had a reimbursement ratio of 80% or above. The overall reimbursement ratio of VHIS insurance claims averaged at about 88% in 2020.

11. The level of premium varies from plan to plan depending on the coverage of individual Certified Plans. As at end-March 2021, the standard premiums of Standard Plans and ward-class Flexi Plans, which together accounted for 83% of the VHIS policies issued, averaged at \$4,400 and \$6,600 respectively. For the vast majority (88%) of Certified

Plans, the standard premiums have remained unchanged since product launch as at end-May 2021. Moderate premium increase averaging 5% was recorded for 5% of Certified Plans while premium reduction averaging 7% was recorded for 6% of Certified Plans.

12. According to the latest information available from the Inland Revenue Department, around 155 000 taxpayers claimed VHIS tax deduction for a total of around 198 000 insured persons in year of assessment 2019/20. The total amount of VHIS qualifying premiums allowed was around \$1,019 million, resulting in average tax savings of roughly about \$770 per taxpayer. Around 80% out of the 198 000 insured persons involved had VHIS qualifying premiums claimed below the tax deduction ceiling of \$8,000, meaning that the premiums they had paid could be fully deductible.

13. All VHIS Providers are required to comply with the scheme rules of VHIS that cover minimum product standard for Certified Plans and service standard for VHIS customers. Before an insurance plan can become a Certified Plan, it has to be submitted to the VHIS Office under FHB for compliance vetting and certification to be compliant with the scheme requirements. Besides, the VHIS Providers have to observe the code of practice under the aegis of VHIS that requires, amongst others, due diligence in handling applications, providing accurate information and explaining application results. The VHIS Providers are also required to collaborate fully with FHB in handling complaints. During the first two years of implementation of VHIS, FHB received and handled 3 133 enquiries and 73 complaints.

MARKET TRANSPARENCY AND PUBLIC EDUCATION

14. VHIS promotes product and premium transparency with a view to fostering healthy market competition and assisting consumers to make informed choices. As one of the key scheme rules, VHIS Providers are required to disclose the policy template and premium schedule of VHIS Certified Plans on their websites. In addition, the official VHIS website provides a one-stop platform for consumers to compare the product features and premiums of Certified Plans of all VHIS Providers at a glance. The official VHIS website was further enhanced by introducing a robust

search engine since November 2019 and a chat-bot function that provides round-the-clock response to consumers' enquiries on VHIS since August 2020.

15. To maintain public awareness of the scheme and enhance their understanding of the scheme features, the publicity and promotion strategy of VHIS is geared to reach out to different targeted groups of people through conventional, online and social media channels. A variety of digital and printed publicity materials, including Announcements in the Public Interest (APIs), online videos, posters, booklets, pamphlets, advertisements, advertorials, etc. have been developed to highlight different features of the scheme. A new series of new TV and Radio APIs as well as key visuals, with the main theme "get protected at different stages of life", was rolled out in March 2021. The new series aims to reinforce public awareness of the key features of VHIS, such as lifelong protection and product variety to suit different needs and budgets.

16. Exhibitions and seminars, including roving exhibitions in private hospitals, shopping malls and MTR stations; seminars for the general public; and briefings to the Chairmen and Vice-Chairmen of the District Councils, District Councillors and their assistants were organised. The promotional activities or events would be resumed after the COVID-19 situation.

WAY AHEAD

17. As mentioned in paragraph 10 above, the reimbursement ratio for claims in 2020 maintains at a reasonable level. We will keep in view the situation and review the benefit schedule of the Standard Plan as and when appropriate so as to ensure that the protection offered by the Standard Plan is adequate.

18. To increase market transparency and promote fair underwriting practice, thereby strengthening consumer protection and fostering healthy competition among insurers, all VHIS Providers will be mandated from 2022 to adhere to the "Best Practice on Standardising Underwriting Questionnaire for Individual Indemnity Hospital Insurance Plans" issued by the Hong Kong Federation of Insurers when handling all new and

migration applications for VHIS Certified Plans. The Standardised Underwriting Questionnaire clearly sets out the scope of health-related information that consumers are required to disclose when applying for individual indemnity hospital insurance coverage, and adopts simplified wording and a standardised format for easier comprehension by consumers.

ADVICE SOUGHT

19. Members are invited to note the above implementation details of VHIS.

Food and Health Bureau
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