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Legislative Council

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Panel on Health Services

Subcommittee on Health Protection Scheme

Minutes of the fifth meeting
held on Monday, 8 July 2013, from 2:00 pm to 4:30 pm
in Conference Room 3 of the Legislative Council Complex

Members present	:	Dr Hon LEUNG Ka-lau (Chairman) Dr Hon Joseph LEE Kok-long, SBS, JP Hon CHAN Kin-por, BBS, JP Hon CHEUNG Kwok-che Hon Mrs Regina IP LAU Suk-yee, GBS, JP Hon CHAN Han-pan Hon Alice MAK Mei-kuen, JP Dr Hon KWOK Ka-ki
Members attending	:	Hon Albert HO Chun-yan Hon WU Chi-wai, MH
Public Officers attending	:	Mr Richard YUEN Ming-fai, JP Permanent Secretary for Food and Health (Health) Food and Health Bureau Mr Chris SUN Yuk-han, JP Head, Healthcare Planning and Development Office Food and Health Bureau
Clerk in attendance	:	Ms Elyssa WONG Chief Council Secretary (2)5

Staff in attendance	:	Ms Maisie LAM Senior Council Secretary (2)5 Ms Michelle LEE Legislative Assistant (2)5 Ms Louisa YU Clerical Assistant (2)5

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I. Further discussion on design of private health insurance policies regulated under the Health Protection Scheme
[LC Paper Nos. CB(2)1507/12-13(01) and CB(2)1237/12-13(01)]

The Subcommittee deliberated (index of proceedings attached at **Annex**).

Risk-profile management

2. Some members including Dr KWOK Ka-ki and Mr CHEUNG Kwok-che were concerned that the arrangement to allow the insurers to transfer to the high-risk pool ("HRP") cases whose premium loading was assessed to equal or exceed 200% of standard premium and the provision of financial support from the Administration to HRP would have the effect of shifting the burden of risk form the insurers to the Government. Mr CHEUNG Kwok-che also expressed concern that insurers might mark up the premium loading rate in order to pass on all higher-risk subscribers to HRP. While expressing the view that the Democratic Party was open-minded on using part of the $50 billion fiscal reserve earmarked to support healthcare reform to support HRP, Mr Albert HO sought clarification as to whether the incorporation of the feature of guaranteed acceptance into HPS would only be feasible provided that there would be an injection from the Government into HRP. Mr WU Chi-wai enquired whether the Administration had conducted an actuarial study on the financial sustainability of HRP.

3. The Administration explained that there was a need to balance between requiring insurers to accept all prospective subscribers to the proposed standardized indemnity hospital insurance plan offered under the Health Protection Scheme ("HPS") (i.e. the HPS Standard Plan), and introducing excessive risks into the insurance pool which would result in escalating premium and discouraging people from taking out HPS plans, especially the young and healthy. The setting up of the proposed HRP, which would be financed by the premium income (net of administrative fee) of the policies transferred thereto and operated by the Government, would manage the additional risks arisen from HPS's features of guaranteed acceptance and

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coverage of pre-existing medical conditions. Hence, those high-risk individuals who could afford to pay a premium loading of not more than 200% of standard premium and were willing to seek private services for a variety of reasons, such as choices over doctors and amenities and shorter waiting time, could finance their own healthcare through HPS. At present, it was common that they were declined from private health insurance coverage and most of their healthcare needs would be taken care of by the public healthcare system funded by public money. It would be unlikely that insurers would mark up the premium loading rate in order to pass on all higher-risk subscribers to HRP, as it was in the interest of insurers to charge an appropriate premium loading rate commensurate with the extra risks that they took on due to price competition between insurers. In addition, they could still expect to have an underwriting profit by keeping the higher-risk subscribers under their own portfolio.

4. On the funding arrangement for HRP, the Administration advised that where necessary and justifiable, the Government would consider providing financial support to HRP. The Consultant was working on the estimation based on a variety of factors. A preliminary estimation was that an injection of around several billion dollars could support its operation over a period of 20 to 30 years. The plan of the Administration was to revert to the Subcommittee on the final design proposed for private health insurance ("PHI") regulated under HPS, including the operation mode and management of HRP, by the end of 2013.

5. Mrs Regina IP and Mr WU Chi-wai were concerned about whether the insurers could introduce premium loading at next policy renewal, so as to pass on unfavourable risks to HRP, in case the low-risk policyholders had made a claim. The Administration advised that insurers would only be allowed to underwrite a prospective insured person, taking into account the latter's health status, pre-existing medical conditions and other relevant risk factors, before effecting a health insurance policy. No re-underwriting would be allowed for policy renewal. It would be made a legal requirement that the premium structure of HPS had to be age-banded. In so doing, insured persons would all long be charged the premium rate of the risk class he/she was classified at the time he/she joined the health insurance policy that applied to his/her age band and gender.

Measures to enhance upfront payment transparency and certainty

6. Mr CHAN Kin-por relayed the view of the insurance industry that given the present overwhelming demand for private hospital services, private healthcare providers would not be interested in contracting with the insurers to map out the lists of "no-gap" or "known-gap" procedures to be covered in the insurance policies regulated under HPS. For services provided by non-

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contracted hospitals, insurers would not be able to work out the estimated out-of-pocket expenses to be paid given the existing insurance coverage acquired by the patient unless the hospital concerned provided the estimated service charges in the first place. The Administration advised that the Steering Committee on Review of the Regulation of Private Healthcare Facilities was conducting a review on the regulatory regime for private healthcare facilities with a view to, among others, enhancing the upfront payment transparency of private hospital services. Consideration would be given to requiring private hospitals to provide patients with the estimated charges of the healthcare services before treatment.

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7. At the request of the Chairman, the Administration undertook to provide after the meeting real examples of existing packages offered by private hospitals to demonstrate the typical items that would be covered by packages for some common procedures to supplement its response given under item (b) of LC Paper No. CB(2)1507/12-13(01).

Impact of the minimum requirements approach on the current market

8. Referring to the consumer survey being conducted by the Consultant to test market response to HPS (including the consumers' willingness to subscribe or migrate from existing policies to HPS plans) based on the preliminary design for HPS plans, the Chairman expressed concern about the impact of the introduction of the minimum requirements on the premium level. In particular, he asked the Administration to carefully assess, whether and to what extent, the introduction of the minimum requirements would discourage employers from providing group indemnity hospital insurance for their employees. While considering that the minimum benefit limits should provide sufficient coverage for general-ward-class private healthcare, Mr CHAN Kin-por remarked that most of the existing employer-provided indemnity hospital insurance could not meet this requirement. He also urged the Administration to engage the insurance industry to validate the various estimations by the Consultant pertaining to the HPS Standard Plan, and to address the industry's questions concerning whether and to what extent re-underwriting was allowed on change of insurers under HPS, as well as how to maintain the sustainability of the risk pools of those health insurance plans which did not migrate to HPS plans, so as to ensure that the final product design for HPS was commercially viable.

9. The Administration advised that efforts had been and would continuously be made to maintain a close dialogue with the various stakeholders, including, among others, the insurance industry, on key issues relating to the formulation of a viable product design for HPS. As regards the group health insurance policies not meeting the minimum requirements of the HPS Standard Plan, an option under consideration was to encourage insurers to offer top-up options

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with additional benefits to enable employees covered by these plans to purchase at their own cost insurance protection at a level tantamount to that of the Standard Plan if they so wish.

Admin 10. Mr WU Chi-wai requested the Administration to provide in writing information on the respective number of persons currently covered by individually-purchased indemnity insurance policies for hospital admission and hospital cash policies.

Effectiveness of HPS to relieve the pressure on public healthcare system

11. Some members including Mr WU Chi-wai and Miss Alice MAK were concerned about the effectiveness of HPS to facilitate greater use of private healthcare services as an alternative to public services, and hence relieving the pressure on public healthcare system. Pointing out that the current proportion of private inpatient care financed by PHI was not small, Mr CHAN Kin-por considered that the introduction of HPS to encourage the taking-out of health insurance would enable more people to choose private hospital services on a sustained basis. This would help provide relief to the public healthcare system. The Chairman was of the view that the Administration should take a snapshot of the distribution of those common procedures performed by the public and private sectors, in order to enable a comparison after the implementation of HPS to assess its effectiveness in relieving the burden on the public healthcare system.

Admin 12. At the request of the Chairman, the Administration agreed to further research into, based on the data collected in past studies, the proportion of those insured who still resorted to the public system despite having adequate insurance coverage for access to private services, to address Miss Alice MAK's concern that subscribers of HPS plans might still resort to the public system.

II. Institutional framework for the governance and operation of the Health Protection Scheme

[LC Paper No. CB(2)1237/12-13(02)]

13. In response to the Chairman, the Administration advised that the proposal for the institutional framework for the governance and operation of HPS, including the supervisory structure and the claims dispute resolution mechanism, would be finalized by the end of 2013. The Administration would revert to the Subcommittee on its recommendations in this regard, together with the final design proposed for PHI regulated under HPS and the public funding support for the implementation of HPS.

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III. Funding for the Health Protection Scheme

[LC Paper No. CB(2)1507/12-13(02)]

14. Mr CHAN Kin-por was of the view that the current HPS proposal, which would not make use of the $50 billion earmarked fiscal reserve to incorporate a savings element into HPS in the form of premium rebate for long-stay in order to finance the subscribers' medical needs after retirement as proposed in the Second Stage Public Consultation on Healthcare Reform, was unattractive to the young and healthy population. The Administration explained that some form of premium control, which hindered market development, might be necessary if public money was used to directly subsidize individuals to take up or stay on HPS plans. During the public consultation exercise, respondents also had reservations on the proposed option of in-policy savings to pay future premium, which would result in a higher premium at the younger age. In the light of the above, the Administration did not recommend making savings a mandatory feature under the HPS.

15. Mr CHAN Kin-por considered that apart from the option of providing a premium rebate proportional to the subscribers' length of staying insured under HPS, consideration could be given to offering a fixed amount of monthly premium subsidy to an insured at an older age if they continued to stay insured under HPS. This would help address the concern that public money used to subsidize the insured might benefit more the insurers than the insured when there was no regulation over premium setting and adjustment. He said that he might oppose the introduction of HPS, unless a savings feature with public subsidy was provided under HPS to ensure that the insured could still afford continuous protection at older age when they needed it most. At the request of the Chairman, the Administration agreed to provide after the meeting illustrative figures, together with a detailed explanation, to support its stance that the proposal for incorporating a savings feature into HPS should not be pursued.

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IV. Dates of future meetings and items for discussion

16. Noting that more time than expected was required for the University of Hong Kong and the Chinese University of Hong Kong to come up with a more mature model for estimating healthcare manpower and a detailed analysis on the regulatory framework and professional development of healthcare professionals respectively, the Chairman suggested and members agreed that the Subcommittee would take up the issue on healthcare manpower planning again with the Administration at the beginning of next legislative session.

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17. There being no other business, the meeting ended at 4:01 pm.

Council Business Division 2
Legislative Council Secretariat
11 October 2013

Annex

Proceedings of the fifth meeting of the Subcommittee on Health Protection Scheme on Monday, 8 July 2013, from 2:00 pm to 4:30 pm in Conference Room 3 of the Legislative Council Complex

Time marker	Speaker	Subject	Action Required
Agenda item I: Further discussion on design of private health insurance policies regulated under the Health Protection Scheme			
000847 - 000938	Chairman	Opening remarks	
000939 - 001513	Admin Chairman	Briefing by the Administration on its response to issues raised at the meeting on 4 June 2013 [LC Paper No. CB(2)1507/12-13(01)]	
001514 - 001743	Chairman Admin Mrs Regina IP	The Administration was requested to provide real examples of existing packages offered by private hospitals to demonstrate the typical items that would be covered by packages for some common procedures.	**Admin**
001744 - 001757	Chairman	Arrangement for members' speaking time	
001758 - 002731	Chairman Mrs Regina IP Admin	Mrs Regina IP's enquiry on whether the proposed standardized indemnity insurance plan for hospital admissions and ambulatory procedures offered under the Health Protection Scheme ("HPS") (i.e. the HPS Standard Plan) would cover pre-existing medical conditions. The Administration's advice that - (a) under the minimum requirements approach, insurers would be required to accept all prospective subscribers to the HPS Standard Plan and to cover their pre-existing medical conditions. However, such conditions would only be fully insured after the waiting period. Insurers were permitted to charge premium loading on high-risk applicants, and transfer to the proposed High Risk Pool ("HRP") high-risk cases whose premium loading was assessed to equal or exceed 200% of standard premium; and (b) on transferral, the insurers would surrender the premium collected for these policies after deducting a nominal administrative fee to be prescribed by the HPS agency. While the insurer would continue to be responsible for the administration of these policies, the premium income (net of administrative fee), claim liabilities and profit or loss of these policies would be accrued to HRP instead of	

Time marker	Speaker	Subject	Action Required
		the insurer concerned. Where necessary, the Government would consider injecting funding to HRP directly to ensure its sustainability. In response to Mrs Regina IP's enquiry about whether insurers could introduce extra exclusion and premium loading on policy renewal, the Administration's explanation on the classification of risk groups upon underwriting and the requirement of guaranteed renewal without re-undewriting under HPS.	
002731 - 003857	Chairman Dr KWOK Ka-ki Admin	Dr KWOK Ka-ki's view that the proposal of including, as part of the minimum requirements prescribed by the HPS Standard Plan, the "annual benefit limit" and "deductible and co-payment" cost-sharing arrangements might not be to the best interest of the insured. The "no-gap/known-gap" arrangement would also limit the insured's choice of hospitals. The Administration's response that - (a) the "annual benefit limit" and "deductible and co-payment" cost-sharing arrangements were designed to combat moral hazard and to bring healthcare costs under better control. That said, while an insured person might exhaust his/her annual maximum insurance benefit in a given contract year, he/she could still enjoy the insurance benefit anew in the ensuring contract year. An annual cap would also be imposed on the amount of deductible and co-payment for the sake of consumer protection; and (b) the "no-gap/known-gap" arrangement could enhance upfront payment transparency and certainty when the development of packaged charging for common procedures according to standardized diagnosis-related groups system could not be achieved in the short-term. Policyholders who opted for receiving treatments at a non-contracted hospital could still have their medical fees reimbursed based on itemized benefits schedules. In response to Dr KWOK Ka-ki's concern that the transfer of high-risk cases to HRP would shift the burden of risks from the insurers to the Government, the Administration's elaboration of the function of HRP to manage risks associated with guaranteed acceptance and coverage of pre-existing medical conditions.	

Time marker	Speaker	Subject	Action Required
003858 - 004235	Chairman Admin	The Chairman's illustrative example to explain the calculation of the standard premium rate of those insured persons classified under the standard risk group, and the premium loading charged to those insured persons classified under higher risk group (including cases with premium loading assessed to equal or exceed 200% of standard premium and would be transferred to HRP).	
004236 - 005147	Chairman Mr WU Chi-wai Admin	Mr WU Chi-wai's concern about the financial sustainability of HRP, whether insurers could introduce premium loading at next policy renewal in case the policyholders had made a claim, and the impact to be brought about by the introduction of HPS on the public healthcare system. The Administration's elaboration of the study being taken by the Consultant on the financial support for HRP, how the premium of an insured person classified under standard risk group would be adjusted according to the proposed age-banded premium structure of HPS, and the continued role of the public healthcare system as the safety net for all regardless of whether the patient concerned had taken out HPS plans.	
005148 - 005829	Chairman Mr CHAN Kin-por Admin	The Chairman and Mr CHAN Kin-por's concern about the impact of the minimum requirements approach on the current market, in particular the group indemnity health insurance market; and Mr CHAN Kin-por's view that the Administration should engage the insurance industry in working out the estimations for the HPS Standard Plan. The Administration's advice on the option under consideration regarding the handling of existing group indemnity health insurance policies under HPS, and its effort to maintain a close dialogue with the various stakeholders in the course of mapping out the product design for HPS. In response to Mr CHAN Kin-por's concern about the private healthcare providers' interest to work with the insurers to enable the implementation of the "no-gap"/known-gap" and "informed financial consent" arrangements, the Administration's advice on the Steering Committee on Review of the Regulation of Private Healthcare Facilities's consideration on measures to enhance the upfront payment transparency of private hospital services.	
005830 - 010104	Chairman Mr WU Chi-wai Admin	Mr WU Chi-wai's concern that the introduction of HPS would result in an increase in demand for private healthcare services, and in turn adding more pressure on the public healthcare system, as	

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		it was presently common that the insured would still resort to the public system for treatment after undergoing investigations in the private system. The Administration's response that - (a) the features of the HPS Standard Plan were designed to address the shortcomings of existing private health products such as uncertainty of coverage and policy terms, uncertainty of medical charges, and no guarantee renewal of policies, etc, so as to encourage more of those who could afford it to take out health insurance and accordingly to make use of private services as an alternative to public services; and (b) at present, there were 11 private hospitals providing in total around 4 000 hospital beds. It was expected that a total of about additional 1 500 private hospital beds would be available in the next four to five years to meet the increasing service demand.	
010105 - 010943	Chairman Mr CHEUNG Kwok-che Admin	Mr CHEUNG Kwok-che's enquiry about the operation of HRP and his concern that insurers might mark up the premium loading rate in order to pass on all higher-risk subscribers to HRP. The Administration's elaboration on the modus operandi of HRP and the reasons why it was in the interest of insurers to keep individuals with non-standard risk profile under their portfolio by charging an appropriate premium loading rate commensurate with the extra risks that they took on.	
010944 - 011732	Chairman Miss Alice MAK Admin	Miss Alice MAK's view that the success of HPS to relieve the pressure on the public healthcare system also depended on whether it could ensure that subscribers with adequate benefit coverage would not pertain to the public sector. The Administration's response that past studies revealed that a significant portion of the admissions of people covered by private health insurance ("PHI") still pertained to the public sector for various reasons. These included avoidance of out-of-pocket payment when the insurance protection was insufficient to cover all the private hospital expenses, and budget uncertainty when the insured could not ascertain the out-of-pocket payment in advance to receiving treatment. The design of the HPS Standard Plan would address these shortcomings of the existing private insurance and healthcare markets.	

Time marker	Speaker	Subject	Action Required
		In response to the Chairman and Miss Alice MAK, the Administration's undertaking to further research into, based on the data collected in the past study, the proportion of those insured who still resorted to the public system despite having adequate coverage for access to private services.	**Admin**
011733 - 012131	Chairman Mr CHAN Kin-por Admin	Mr CHAN Kin-por's concern on whether and to what extent re-underwriting was allowed on change of insurers under HPS, as well as how to maintain the sustainability of the risk pools of those health insurance plans which did not migrate to HPS plans; and the Administration's response that it would work with the insurance industry to ensure that the product design for HPS was commercially viable. In response to Mr CHAN Kin-por's view that the public healthcare system should remain a safety net for the subscribers of HPS plans, the Administration's assurance that the public system would act as the safety net for all so that no one should be denied healthcare service due to lack of means.	
012132 - 012537	Chairman Miss Alice MAK Admin	Miss Alice MAK's reiteration of her view that it was of utmost importance for the Administration to ensure that the introduction of HPS, including the proposal to use public money to support the operation of HRP, would relieve the pressure on the public healthcare system. The Chairman's suggestion that the Administration should take a snapshot of the distribution of those common procedures performed by the public and private sectors, in order to enable a comparison after the implementation of HPS to assess its effectiveness in relieving burden on the public healthcare system.	
012538 - 013219	Chairman Mr Albert HO Admin	Mr Albert HO's remark that the Democratic Party was open-minded on using part of the $50 billion fiscal reserve earmarked to support healthcare reform to support HRP; and his enquiry as to whether the incorporation of the feature of guaranteed acceptance into HPS would only be feasible provided that there would be an injection from the Government into HRP. The Administration's response that the HRP arrangement was to address the existing market practice of limited access to health insurance by high-risk individuals on the one hand, and maintain the commercial viability of HPS plans	

Time marker	Speaker	Subject	Action Required
		on the other. Subject to the findings from the Consultant, injection from the Government into HRP would be considered as necessary.	
013220 - 013455	Chairman Mr WU Chi-wai Admin	In response to Mr WU Chi-wai's enquiry as to whether separate charges would be imposed by public hospitals on patients covered by PHI policies regulated under HPS, the Administration replied in the negative. The Administration was requested to provide in writing information on the number of persons currently covered by individually-purchased private hospital indemnity insurance and hospital cash policies respectively.	**Admin**
013456 - 013922	Chairman Mr CHAN Kin-por Admin	Mr CHAN Kin-por's view that while the Administration could request all insurers offering indemnity hospital insurance products to make HPS Standard Plan available as one of the options to consumers, it should not standardize the basic terms and coverage of all hospital indemnity products in the market. The Administration's response that - (a) the minimum requirements, which were designed for enhancing quality and certainty of insurance protection to consumers and long-term sustainable development of the healthcare system, should be applied to all indemnity hospital insurance products in the market; (b) in the case of the co-existence of a regulated market segment under the aegis of HPS and an unregulated market segment where product offering was not bound by minimum requirements on product design, HPS would become a choice mainly for the unhealthy population due to adverse selection; and (c) the minimum requirements would be set with reference to the level of protection and common features of products now generally available in the market.	
Agenda item II: Institutional framework for the governance and operation of the Health Protection Scheme			
013923 - 014137	Chairman Admin	Briefing by the Administration on the preliminary proposal for the institutional framework for the governance and operation of HPS, including the supervisory structure and the claims dispute resolution mechanism [LC Paper No CB(2)1237/12-13(02)]	

Time marker	Speaker	Subject	Action Required
014138 - 014411	Chairman Admin Mr CHAN Kin-por	The Chairman's enquiry about the timetable for finalizing the proposal for the institutional framework for the governance and operation of HPS; and whether the proposed HPS agency would regulate, apart from the PHI sector, the private healthcare sector. The Administration's advice about the timetable for finalizing the proposal, and its clarification that the setting up of the HPS agency was to ensure that indemnity hospital insurance plans being offered in the market would comply with the minimum requirements prescribed by the HPS Standard Plan, and handle complaints about insurance claims arising from the HPS plans.	
Agenda item III: Funding for the Health Protection Scheme			
014412 - 014759	Chairman Admin	Briefing by the Administration on its considerations on providing public funding support for the implementation of HPS [LC Paper No. CB(2)1507/12-13(02)]	
014800 - 014829	Chairman Admin	In response to the Chairman's enquiry about whether tax incentive, in the form of deduction to taxable income, would be introduced for subscribers of HPS plans, the Administration's assurance that it would do so and was exploring how best this could be taken forward.	
014830 - 020106	Chairman Mr CHAN Kin-por Admin	Mr CHAN Kin-por's view that the Administration should retain its original proposal to make use of the $50 billion earmarked fiscal reserve to provide financial incentives in the form of premium rebate for long-stay, in order to attract the young and healthy population to purchase HPS plans; and the Administration's explanation on the reasons why the proposed saving options were considered not worthy to pursue. The Administration was requested to provide after the meeting illustrative figures, together with a detailed explanation, to support its stance that the proposal for incorporating a savings feature into HPS should not be pursued.	**Admin**
Agenda item IV: Dates of future meetings and items for discussion			
020107 - 020245	Chairman	Date of next meeting and item for discussion	