

**For Discussion on
14 December 2015**

**Legislative Council Panel on Health Services
Subcommittee on Health Protection Scheme**

**Updates on the Public Consultation on the
Voluntary Health Insurance Scheme and Latest Developments**

PURPOSE

This paper summarises the key findings of the public consultation on the Voluntary Health Insurance Scheme (VHIS) and briefs Members on the latest developments in taking forward the VHIS.

PUBLIC VIEWS ON THE PUBLIC CONSULTATION

2. The Government conducted a public consultation on the VHIS from 15 December 2014 to 16 April 2015. The VHIS aims to enhance the accessibility, quality and transparency of individual indemnity hospital insurance (Hospital Insurance) products in the market. By encouraging those who are able and willing to make use of private healthcare services, the VHIS would help alleviate pressure on the public healthcare system and contribute to enhancing the long-term sustainability of the healthcare system as a whole.

3. We received a total of 600 written submissions from the public, including 122 submissions from organisations and 478 submissions from individuals. They provided comments on the policy objectives of the VHIS as well as its specific proposals, including, among others, proposed introduction of Minimum Requirements on individual Hospital Insurance products to enhance consumer protection and transparency of such products, the use of public funding to provide incentive to encourage more individuals to take up private health insurance, migration and grandfathering arrangements for existing products and the institutional framework for the VHIS.

(a) Policy Objectives of the VHIS

4. In general, there was broad support for the concept and policy objectives of VHIS. Many considered it a positive first step towards redressing the balance of the public-private healthcare sectors and enhancing the long-term sustainability of the healthcare system. There was also a general

consensus in the community on introducing a regulatory regime for individual Hospital Insurance. Many concurred that strengthened regulation and the proposed Minimum Requirements will enhance the accessibility, quality and transparency of individual Hospital Insurance, and foster consumer confidence in using private healthcare services.

5. At the same time, some respondents held the view that the VHIS may not be attractive enough to the elderly or the young and healthy, and expressed doubt on the effectiveness of the VHIS in achieving its objectives. Some submissions, including those from the insurance industry, considered it necessary to allow for more flexibility in implementing the Minimum Requirements, such as modifying some of the Minimum Requirements; and allowing more flexibility for high-end products or products designed for consumers already covered by existing group or individual policies. Some submissions pointed out that other policy measures must be implemented in parallel with the VHIS for building an integrated and holistic healthcare system, such as public-private partnerships, promotion of preventive care, greater emphasis on primary care and more transparency in private hospital charges. A minority of submissions held the view that, instead of implementing and spending public money on the VHIS, the Government should focus on enhancing public healthcare services.

(b) Minimum Requirements

6. There was strong support for those Minimum Requirements, including guaranteed renewal, no “lifetime benefit limit”, guaranteed acceptance with premium loading cap, coverage of hospitalisation and prescribed ambulatory procedures, coverage of prescribed advanced diagnostic imaging tests and non-surgical cancer treatments, budget certainty, standardised policy terms and conditions, and premium transparency. Regarding guaranteed acceptance with premium loading cap, some respondents suggested extending the “open to all” one-year window period to a longer period, or setting a higher age limit than 40 as originally proposed.

7. Notwithstanding majority support for the Minimum Requirements of minimum benefit limits and cost-sharing restrictions, some submissions suggested allowing more flexibility in order to suit different consumer needs and to encourage market innovation, such as providing plans with lower benefit limits for consumers who are already covered by an existing individual or group policy; or relaxing the restrictions on cost-sharing by policyholders in exchange for a lower premium.

8. There were divergent views on the coverage of pre-existing conditions and portable insurance policy. On one hand, some submissions considered the requirement of coverage of pre-existing conditions important in benefiting those with health conditions. On the other hand, other submissions expressed concern on whether coverage of pre-existing conditions would result in much higher claims payout and drastic increase in premiums, and whether the higher premiums would discourage the young and healthy people from joining the VHIS. Some suggested allowing case-based exclusions so that consumers with higher health risks may choose to take out a policy with a lower premium. As regards the requirement of portable insurance policy, some submissions agreed with the principle of portability, pointing out that portability would facilitate consumer choice and drive market competition. On the other hand, other respondents were concerned whether portability without re-underwriting would pose financial risk to the insurer accepting the transfer of policy.

9. As regards group Hospital Insurance, a majority of submissions supported the proposed exemption of group Hospital Insurance from the Minimum Requirements, so as to encourage employers to maintain group cover for their employees. There was also broad support for the proposed Conversion Option¹ and Voluntary Supplement(s)² to protect the interests of employees.

(c) Use of Public Funding

10. A majority of views supported the policy objective of establishing the High Risk Pool (HRP). They agreed that the HRP is essential for implementing the requirement of guaranteed acceptance with premium loading cap, especially for high-risk individuals who often encounter difficulties in obtaining Hospital Insurance under existing market practice. Some respondents suggested setting a higher entry age limit (originally proposed at 40), and extending the one-year window period to allow more time for people to consider joining the VHIS. On the other hand, some submissions expressed their concern on the long-term sustainability of the HRP. They remarked that the HRP would be a drain on public finance, and questioned whether the amount of public funding reserved for maintaining the operation of the HRP is sufficient.

¹ Under the VHIS proposal, we proposed to require insurers to offer as an option to employers an elective Conversion Option in the group Hospital Insurance products offered to employers. If the employer decides to purchase the group policy with the Conversion Option, an employee covered by such group policy can switch to an individual Standard Plan at the same underwriting class without re-underwriting, provided that the employee has been employed for a full year immediately before the transfer.

² Under the VHIS proposal, we proposed that insurers may provide Voluntary Supplement(s) to individual members covered by a group Hospital Insurance policy who wish to procure at their own costs additional protection on top of their group policy.

11. There was overwhelming support for the proposal of providing tax deduction for VHIS-compliant policies. Many submissions considered that the tax incentive should be enhanced to attract young and healthy people to join the VHIS, such as setting a higher annual ceiling on claimable premiums, or relaxing the cap on the number of dependants' policies.

(d) Migration and Grandfathering Arrangements

12. An overwhelming majority of views supported the proposal of requiring insurers to offer a migration option to policyholders of existing individual Hospital Insurance policies within the migration window period. Many considered that the proposed one-year window period should be extended, so as to allow more time for policyholders to better understand the VHIS and to consider migrating to compliant policies. There was broad support for the proposed grandfathering of existing individual Hospital Insurance policies in the case where existing policyholders do not wish to migrate to VHIS compliant policies. Nevertheless, the insurance industry expressed doubts on the sustainability of the grandfathered portfolio in the longer term, and reiterated their view that the industry should have the flexibility to design different products to be sold alongside VHIS products.

(e) Institutional Framework

13. A majority of views supported the proposed establishment of a regulatory agency. They considered Government regulation important for monitoring the VHIS and the operation of the HRP, and that a well-designed regulatory system can enhance consumer confidence and encourage the public to participate in the VHIS. Many respondents pointed out that a balanced representation of different stakeholders is crucial to the independence, impartiality and credibility of the regulatory agency. Other respondents pointed out the necessity of clearly delineating the roles and responsibilities of the regulatory agency, so as to ensure effective communication and avoid duplication of duties with existing regulatory bodies. A minority of submissions considered a separate regulator not necessary, and that the proposed functions of the regulatory agency should be taken up by existing regulatory bodies to avoid duplication of duties.

14. Many submissions considered that a credible and impartial claims dispute resolution mechanism would help resolve and minimise claims disputes. Some submissions noted that the existing Insurance Claims Complaints Bureau (ICCB), a self-regulatory body sponsored by the insurance industry that handles complaints about insurance claims, is equipped with the necessary expertise and

has accumulated rich experience in handling health insurance claims disputes. Instead of setting up a new mechanism, these submissions considered that the ICCB should continue with its role in handling insurance claims disputes.

(f) Other Comments

15. Most of the submissions attached great significance to the need for an adequate supply of healthcare manpower and sufficient capacity of the private healthcare sector. Many respondents questioned whether the additional demand arising from the VHIS would draw more healthcare personnel to the private market, leading to “brain-drain” from the public sector. Many respondents considered an adequate supply of private healthcare facilities crucial to absorbing the additional demand brought about by the VHIS and keeping the fees and charges of private healthcare services under better check.

16. Many submissions concurred that price transparency of private healthcare services would play an essential role in protecting consumers and keeping medical costs under check. This would, in turn, help keep premium levels under better control and ensure the long-term sustainability of the VHIS. Some respondents opined that some form of standardisation of coding of fees and charges would be important in controlling medical inflation in the long-run.

17. Some submissions expressed concern on whether increased utilisation under the VHIS would result in a drastic increase in the premium levels. Some respondents held the view that the premiums may be unaffordable to some members of the community, especially the elderly, low-income groups or chronic disease patients. Others expressed concern over the relatively high expense loading of the Hong Kong individual health insurance market as compared with overseas markets. Some suggested that, in addition to the proposed transparency measures, the Government should step up the monitoring of premium levels.

LATEST DEVELOPMENTS AND WAY FORWARD

18. We have analysed the views expressed by the community and stakeholders in the public consultation and are in discussion with the insurance industry through the Hong Kong Federation of Insurers (HKFI) on refining the details of the VHIS proposal. The insurance industry, while in general supported the policy objectives of the VHIS to provide enhanced health insurance protection for consumers, expressed concerns over some of the specific proposals put forth in the consultation document. Among other things, the industry expressed concerns over the coverage of pre-existing conditions

without an option for exclusion at a lower premium outside Standard Plan; whether the minimum benefit limits could be flexibly designed for plans sold as a supplement to those with group coverage; to what extent the portability arrangement could be refined to minimise unintended consequences on the industry as a whole; how cost-sharing restrictions could be devised to better facilitate product innovation and diversity; whether more flexibility could be allowed in the implementation of the No-gap/known-gap arrangement; and whether high-end products could be subject to a less stringent set of requirements because of their unique features and its nature as a niche product with no appeal to the mass market.

19. We have maintained a regular dialogue with members of the Task Force on Health Care Reform of the HKFI, with the aim of working out a sensible, practicable and viable proposal on the basis of the proposed Minimum Requirements that aligns with the objectives of the VHIS, meets the needs of the community, enhances consumer protection and transparency of private Hospital Insurance products, and at the same time addresses the valid and legitimate concerns of the insurance industry. We aim to conclude the discussion with the insurance industry and other stakeholders and propose a way forward in the Consultation Report by early 2016.

20. In conjunction with the VHIS Consultation Report, we are preparing in tandem the Consultation Report on Regulation of Private Healthcare Facilities. By the end of the public consultation period on 16 March 2015, we received a total of 296 written submissions from the public, including 58 submissions from organisations and 238 submissions from individuals. Generally speaking, there was broad support for having a more modernised and comprehensive regulatory control for different categories of private healthcare facilities in Hong Kong. We will iron out the details of the new regulatory regime in collaboration with various stakeholders, with the aim of implementing the new regulatory regime through enacting a new legislation.

ADVICE SOUGHT

21. Members are invited to note the contents of the paper.

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