**For information on**
**16 January 2017**

**Legislative Council Panel on Health Services**

**Consultation Report on Voluntary Health Insurance Scheme**

## PURPOSE

This paper briefs Members on the outcome of the Public Consultation on the Voluntary Health Insurance Scheme (VHIS) and the way forward for the VHIS.

## BACKGROUND

2. Confronted by the challenges brought by the ageing population and increasing healthcare needs, the Government conducted two stages of public consultation on healthcare reform in 2008 and 2010 respectively to look for ways to maintain the long-term sustainability of our healthcare system. As the public expressed reservations about any mandatory measures for healthcare financing, the Government proposed to implement the VHIS, previously known as the Health Protection Scheme, to enhance the accessibility to and quality of Hospital Insurance[1]. To this end, the VHIS aims to strengthen consumer confidence in using private healthcare services, thereby alleviating the long-term financing pressure on the public healthcare system.

3. The Government conducted a Public Consultation on the VHIS from 15 December 2014 to 16 April 2015. Under the Public Consultation, we proposed that insurers selling and/or effecting individual Hospital Insurance would be required to comply with a set of minimum requirements prescribed by the Government ("Minimum Requirements"). The Minimum Requirements are introduced to improve the accessibility

[1] For the purpose of this paper, the expression "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.

and continuity of individual Hospital Insurance, enhance the quality and promote the transparency and certainty of insurance protection.

4. We received 600 written submissions in total, including 478 from individuals and 122 from organisations. The public views received on the specific proposals for the VHIS are analysed in the consultation report (executive summary at **Annex A**). The key findings are summarised in the following paragraphs.

**Public Views on the VHIS**

***(i) Broad Support for the Policy Objectives of the VHIS and Setting Requirements for Individual Hospital Insurance***

5. There was broad support for the concept and policy objectives of the VHIS in general. Many considered it a positive step towards redressing the balance of the public-private healthcare sectors and enhancing the long-term sustainability of the healthcare system as a whole. Many also concurred that the proposed Minimum Requirements approach will enhance the accessibility, quality and transparency of individual Hospital Insurance, thus ensuring that those who have taken out such insurance can make use of the protection when they require medical diagnosis and treatment. At the same time, some submissions, including those from the insurance industry, considered it necessary to allow more flexibility in implementing the Minimum Requirements, as well as more room for designing products that cater for specific markets such as high-end clientele or consumers already covered by existing group or individual policies.

6. 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 partnership, 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.

### *(ii) Support for the Majority of the Minimum Requirements and Need to Address Concerns Over the Other Requirements*

7. There was strong support for most of the Minimum Requirements, including guaranteed renewal of policies with no re-underwriting, no "lifetime benefit limit" against the benefits that a policyholder may claim, coverage of hospitalisation and prescribed ambulatory procedures[2], coverage of prescribed advanced diagnostic imaging tests and non-surgical cancer treatments, budget certainty measures including Informed Financial Consent [3] and "No-gap/known-gap" arrangement for at least one procedure/test[4], adoption of standardised policy terms and conditions, and premium transparency through publication of information on age-banded premiums. Regarding the proposal of guaranteed acceptance with premium loading cap, some respondents noted that it would have to be underpinned by a High Risk Pool (HRP) to be established with injection of public funding to enable high-risk individuals to purchase private Hospital Insurance. Some respondents questioned the concept of using public money to help such high-risk individuals to purchase private Hospital insurance, and the financial sustainability of the proposed HRP in general (further discussion on HRP is at paragraph 10 below).

8. 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.

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[2] Ambulatory procedures refer to the procedures that are performed in a setting where the patient is discharged in the same calendar day of admission; and the expected total duration of the procedure and recovery requiring continuous confinement within the facility does not exceed 12 hours.

[3] Under the "Informed Financial Consent" requirement, a policyholder will be informed of estimated charges and estimated claims amount through a written budget estimate provided by the doctor/private healthcare facility concerned and his/her insurer before treatment.

[4] Under the No-gap/known-gap arrangement, a policyholder can enjoy "no-gap" (no out-of-pocket payment) or "known-gap" (a pre-determined amount of out-of-pocket payment) for at least one procedure/test if the procedure/test concerned, the institution (e.g. hospital) and the doctor selected by the policyholder are on the lists agreed among his/her insurer and healthcare providers.

9. There were divergent views on the coverage of pre-existing conditions and portable insurance policy. While some respondents considered the requirement of coverage of pre-existing conditions important in benefiting those individuals with adverse health conditions, others 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 taking out insurance intended to be regulated under the VHIS, hence, lowering their desire to use private healthcare services. 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. Other respondents, however, were concerned whether portability without re-underwriting would pose financial risk to the insurer accepting the policy so transferred.

***(iii) Need to Address Concerns about the HRP***

10. There were divergent views over the proposed establishment of the HRP. On one hand, many supported the policy objective of establishing the 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 taking out insurance which is compliant with the VHIS. On the other hand, a number of submissions expressed grave concern on the long-term sustainability of the HRP. Some questioned whether the amount of public funding reserved for maintaining the operation of the HRP is sufficient. Some also remarked that the HRP would be a drain on public finance, and objected to spending public money on those who can afford private health insurance and private healthcare services.

### *(iv) Strong Support for Tax Deduction*

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

### *(v) Broad Support for Migration*

12. Many supported the proposal of requiring insurers to offer a migration option to policyholders of existing individual Hospital Insurance policies within the migration window period. They 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.

### *(vi) Broad Support for the Institutional Framework*

13. Many supported the proposed establishment of a regulatory agency. They considered that a well-designed regulatory system can enhance consumer confidence and encourage the public to participate in the VHIS. Other submissions considered a separate regulator not necessary, and that the functions of the proposed regulatory agency should be taken up by existing regulatory bodies to avoid duplication of duties. As regards claims dispute resolution, many submissions considered that a credible and impartial claims dispute resolution mechanism (CDRM) would help resolve and minimise claims disputes. On the other hand, 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 CDRM, these submissions considered that the ICCB should continue with its role in handling insurance claims disputes.

### *(vii) Supporting Infrastructure for the VHIS*

14. 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. Moreover, many 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.

## WAY OF IMPLEMENTATION

15. The Government has considered the need to strike a careful balance having regard to the aims of the VHIS and its extensive impact on the insurance sector. At the meeting of the Executive Council on 13 December 2016, the Council advised and the Chief Executive ordered that the VHIS should be implemented through a non-legislative framework, and that the Minimum Requirements and related proposals under the VHIS should be refined. Implementing the VHIS via a non-legislative means has the merits of reducing the unintended impact of a brand new regulatory regime on the insurance industry, whilst benefiting the public with enhanced protection as soon as possible. The major objective of the VHIS, which is to enhance the accessibility, quality and transparency of individual Hospital Insurance products, is in line with the principal function of the future Independent Insurance Authority (IIA) on the protection of existing and potential policyholders[5]. Against this backdrop, the Government will implement the VHIS via a non-legislative regulatory framework in collaboration with the IIA as described below.

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[5] Section 4A(1) of the Insurance Companies Ordinance (Cap. 41) stipulates that the principal function of the Insurance Authority is to regulate and supervise the insurance industry for the promotion of the general stability of the insurance industry and for the protection of existing and potential policy holders.

***Role of the Food and Health Bureau (FHB)***

16. As the policy bureau, FHB will be responsible for issuing and updating a set of VHIS practice guidelines, based on the proposed Minimum Requirements, in consultation with relevant stakeholders. FHB will also handle public enquiries on and monitor compliance of the practice guidelines.

***Role of IIA***

17. The IIA may, as the regulator of the insurance industry, under the Insurance Companies Ordinance (Cap. 41)[6] ("the Ordinance"), publish codes or guidelines that it considers appropriate for giving guidance in relation to a matter relating to a function of the IIA under the Ordinance or in relation to the operation of a provision of the Ordinance. The IIA will be invited to issue a Guidance Note[7] 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.

18. As mentioned in paragraph 16, FHB will monitor the compliance of the VHIS practice guidelines. In certain extreme cases, such as where an insurer markets a non-VHIS-compliant product as VHIS compliant and misleads consumers in purchasing it, the FHB may refer such cases to the IIA for consideration if the action would amount to a "misconduct" in the Ordinance, which is defined to mean, amongst other things, an act or omission relating to the carrying on of a class of insurance business which, in IIA's opinion, is or is likely to be prejudicial to the interests of policy holders or potential policy holders or the public interest. If the IIA considers that the failure amounts to misconduct, it can consider taking appropriate disciplinary actions for the misconduct,

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[6] The Insurance Companies Ordinance (Cap. 41) will be renamed as the Insurance Ordinance (Cap. 41) after the commencement of the relevant provisions under the Insurance Companies (Amendment) Ordinance 2015.

[7] Over the years, the Commissioner of Insurance, being the Insurance Authority, has issued 17 Guidance Notes to insurers on matters on the use of internet for insurance activities, reinsurance, corporate governance of insurers, to mention but a few. Authorized insurers have been amenable in complying with the requirements of Guidance Notes.

including the order of a pecuniary penalty, reprimand, or even revocation or suspension of the authorization of the insurer.

## REFINEMENTS TO THE VHIS PROPOSALS

19. In response to feedback collected during the consultation, the Government will refine the VHIS proposals under the new regulatory framework.

### *Types of Products*

20. Under the refined VHIS, there will be two types of compliant individual Hospital Insurance products, namely the Standard Plan and the Flexi Plan. The Standard Plan is intended to be fixed in product design that provides a basic level of protection (e.g. benefit limits for room and board at ward class) and just meets all the Minimum Requirements. Anchored to the Standard Plan, the Flexi Plan provides enhanced benefits in terms of more relaxed limits of indemnity (e.g. higher room and board benefit limits) and/or wider benefit coverage which is in the nature of Hospital Insurance with less restriction for the part of enhanced protection. The definitions of these VHIS-compliant products are set out at **Annex B**.

21. It is still legally permissible for insurers to issue and sell non-compliant individual Hospital Insurance products in the market to satisfy the needs of some consumers. To strike a balance between consumer protection and freedom of consumers' choice, FHB will, through the VHIS practice guidelines, encourage the insurers that offer non-VHIS-compliant products to (a) concurrently make available the Standard Plan to customers; and (b) provide all policy holders of non-VHIS-compliant products an option to convert to a VHIS-compliant product with or without payment of an additional premium. For the avoidance of doubt, non-VHIS-compliant products would not be eligible for tax deduction.

22. Other refinements to the Minimum Requirements and the ancillary proposals for implementing the VHIS include –

***Refinements to the Minimum Requirements (applicability of various Minimum Requirements on Standard Plan and Flexi Plan is set out at Annex C)***

(a) *guaranteed acceptance, portability and HRP*: "Guaranteed acceptance" and "portable insurance policy" hinge on the introduction of the HRP with Government fund injection. Given the public's diverse views on the proposed establishment of the HRP (paragraph 10 refers), these two Minimum Requirements will be dealt with at a later stage together with the HRP;

(b) *coverage of pre-existing condition(s) by VHIS-compliant products*: we propose to allow insurers not to cover pre-existing condition(s) specific to a policy holder. This relaxation is necessary to facilitate policyholders with health conditions to obtain insurance coverage in the absence of guaranteed acceptance under the original proposal with HRP. Insurers, when offering acceptance to subscribers for Standard Plan and where possible, should cover pre-existing conditions (with or without premium loading). They may also provide an extra option to subscribers with case-based exclusions in exchange for a lower premium;

(c) *cost-sharing restriction*: subject to further deliberations with stakeholders, the cost-sharing restrictions of VHIS-compliant plans should be relaxed in order to enhance premium affordability, consumer choice and abuse control. In other words, insurers will be allowed to impose a certain cost-sharing ratio for insurance coverage most prone to abuse, such as prescribed ambulatory procedures and advanced diagnostic imaging tests, and a higher annual ceiling on the cost-sharing amount borne by policyholders;

***Refinements to Implementation of VHIS***

(d) *Flexi Plan*: greater flexibility should be allowed in the design of Flexi Plan by relaxing some of the Minimum Requirements

for the coverage beyond that of the Standard Plan. The Flexi Plan will follow a modular design that encompasses a basic coverage tantamount to the Standard Plan, and an add-on coverage (e.g. new hospital benefit items) that are less restrictive in design;

(e) *migration arrangement*: to allow sufficient time for insurers to develop migration options meeting consumer needs, the one-year migration window period will be extended to two years (if necessary to three years) and to require insurers to offer at least one opportunity for policy holders of non-VHIS-compliant product to migrate to a VHIS-compliant product (i.e. either Standard Plan or Flexi Plan) during the window period; and

(f) *dispute resolution*: in line with the non-legislative nature of VHIS, the ICCB should continue to handle claims disputes arising from individual health insurance policies, including VHIS-compliant policies, according to its terms of reference.

**WAY FORWARD**

23. To take forward the implementation of the VHIS, we will start preparing the VHIS practice guidelines with the insurance industry and relevant stakeholders, and working out the arrangements for tax deduction under the VHIS. We intend to establish a VHIS Office in FHB to certify those products that are VHIS-compliant and hence would be eligible for tax deduction. We aim to finalise the VHIS practice guidelines and details of the tax deduction arrangement in 2018.

**ADVICE SOUGHT**

24. Members are invited to note the content of this paper.

**Food and Health Bureau**
**January 2017**

**Annex A**

# Executive Summary of Consultation Report on Voluntary Health Insurance Scheme

## THE PUBLIC CONSULTATION (CHAPTER 1)

The public consultation on Voluntary Health Insurance Scheme (VHIS) was conducted between 15 December 2014 and 16 April 2015. We consulted the public on our proposal to introduce a regulatory regime for individual indemnity hospital insurance (Hospital Insurance)[1] so that such products must comply with relevant Minimum Requirements prescribed by the Government. The Minimum Requirements serve to improve the accessibility, continuity, quality and transparency of individual Hospital Insurance.

2. During the consultation period, we launched a publicity campaign through various channels, including Announcements in the Public Interest, distribution of posters, leaflets, brochures, consultation documents, souvenirs, animation videos, advertisement, a dedicated website and Facebook page. A telephone survey was commissioned from January to May 2015 to facilitate collation and assessment of views on the VHIS. We also attended 73 briefing sessions to present the proposed VHIS and listen to the views expressed by the community, including Legislative Council and District Council meetings, community forums and briefings and seminars organised by different parties and organisations. We received a total of 600 written submissions, comprising 478 from individuals and 122 from organisations.

## PUBLIC VIEWS ON PROPOSED REGULATION OF INDIVIDUAL HOSPITAL INSURANCE AND MINIMUM REQUIREMENTS (CHAPTER 2)

### Policy Objectives of the VHIS and Strengthening Regulation of Individual Hospital Insurance

3. There was broad support for the concept and policy objectives of the VHIS in general. Many considered it a positive step towards redressing the balance of the public-private healthcare sectors and enhancing the long-term sustainability of the healthcare system as a whole. Many respondents supported the VHIS in providing an alternative to public healthcare for those

[1] For the purpose of this report, the expression "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 hospitalisation. A Hospital Insurance policy held by an individual policyholder, not being an employer insuring for the benefit of his/her employees, will be referred to as an "individual Hospital Insurance policy". The expression "individual Hospital Insurance" will be construed accordingly.

who were willing and able to use private healthcare services, and pointed out that this would help alleviate the pressure on the public healthcare system. There was also a general consensus on introducing a regulatory regime for individual Hospital Insurance. Many concurred that strengthened regulation and the proposed Minimum Requirements approach would enhance the accessibility, quality and transparency of individual Hospital Insurance.

4. At the same time, some respondents held the view that the VHIS might 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 more flexibility in implementing the Minimum Requirements, such as modifying some of the Minimum Requirements; and allowing more flexibility for the market in designing products catering for the needs of different consumers. Some respondents considered that consumer choice should be valued, and that existing insurance plans should not be barred from the market.

5. 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 number 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.

**Minimum Requirements**

6. There was strong support for those Minimum Requirements, including guaranteed renewal, no "lifetime benefit limit", coverage of hospitalisation and prescribed ambulatory procedures, coverage of prescribed advanced diagnostic imaging tests and non-surgical cancer treatments, budget certainty, adoption of standardised policy terms and conditions, and premium transparency. Regarding guaranteed acceptance with premium loading cap, some respondents questioned the concept and financial sustainability of the proposed High Risk Pool (HRP), whilst proponents of this Minimum Requirement considered that it was essential for high risk individuals who often encounter difficulties in obtaining Hospital Insurance under existing market practice.

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. While some respondents considered the requirement of coverage of pre-existing conditions important in benefiting those individuals with adverse health conditions, others 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 taking out insurance intended to be regulated under the VHIS, hence, lowering their desire to use private healthcare services. Some suggested allowing case-based exclusions so that consumers with higher health risks might 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. Other respondents, however, were concerned whether portability without re-underwriting would pose financial risk to the insurer accepting the policy so transferred.

**Arrangements for Group Hospital Insurance**

9. 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. Nevertheless, a minority of respondents considered that having “one standard” for all Hospital Insurance products more ideal and less confusing to consumers, and suggested that group Hospital Insurance should be subject to VHIS regulation in the long-run.

10. There was broad support for the proposed Conversion Option and Voluntary Supplement(s). Most submissions agreed that the two arrangements could enhance protection for employees. Some respondents suggested that measures should be put in place to mitigate possible anti-selection risk brought about by the Conversion Option; others suggested that the Voluntary Supplement(s) should be individual-based rather than group-based to allow an employee to maintain the cover if he/she changed employment.

## PUBLIC VIEWS ON PROPOSED USE OF PUBLIC FUNDING (CHAPTER 3)

### HRP

11. There were divergent views over the proposed establishment of the HRP. On one hand, many supported the policy objective of establishing the HRP. They agreed that the HRP was essential for implementing the requirement of guaranteed acceptance with premium loading cap. 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 taking out insurance which was compliant with the VHIS.

12. On the other hand, a number of submissions expressed grave 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 was sufficient. Other respondents considered that public funding should be spent on enhancing public healthcare instead of subsidising those who could afford to purchase private Hospital Insurance.

### Tax Concession

13. There was overwhelming support for the proposal of providing tax concession for VHIS-compliant policies. Many submissions considered that the tax concession should be enhanced to attract young and healthy people to take out insurance under the VHIS, such as setting a higher annual ceiling on claimable premiums; or to relax the cap on the number of dependants' policies. Some submissions considered that the Government should ensure that public funds would be well spent.

## PUBLIC VIEWS ON PROPOSED MIGRATION ARRANGEMENTS (CHAPTER 4)

### Migration Window Period

14. Many supported the proposal of requiring insurers to offer a migration option to policyholders of existing individual Hospital Insurance policies within the migration window period. They 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.

## Grandfathering Arrangements

15. There was broad support for the proposed grandfathering of existing individual Hospital Insurance policies in the case where existing policyholders did 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 stressed their view that the industry should have the flexibility to design different products to be sold alongside VHIS products.

## PUBLIC VIEWS ON PROPOSED INSTITUTIONAL FRAMEWORK (CHAPTER 5)

## Regulatory Agency

16. Many 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 could enhance consumer confidence and encourage the public to participate in the VHIS. On the other hand, some 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.

## Claims Dispute Resolution Mechanism (CDRM)

17. Many submissions considered that a credible and impartial CDRM 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, was equipped with the necessary expertise and had accumulated rich experience in handling health insurance claims disputes. Instead of setting up a new CDRM, these submissions considered that the ICCB should continue with its role in handling insurance claims disputes.

## PUBLIC VIEWS ON SUPPORTING INFRASTRUCTURE (CHAPTER 6)

## Supply of Healthcare Manpower and Capacity of Private Healthcare Sector

18. 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.

**Price Transparency of Private Healthcare Services**

19. 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.

**Premium Levels**

20. 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 might 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 consider measures that would help monitor premium levels.

**CONCLUSION AND WAY FORWARD (CHAPTER 7)**

21. With general support from the community, we will proceed to take forward the VHIS. We propose to refine some specific proposals taking into account the views received from the public and relevant stakeholders. To strike a balance between consumer protection and consumer choice, we agree that there should be room for product design and innovation. Insurers should have reasonable flexibility of offering products that do not fully meet the requirements under VHIS, alongside VHIS-compliant products provided that consumers are well informed with ample avenues for access to VHIS-compliant products.

22. As regards the HRP, it is necessary for the introduction of the two Minimum Requirements of “guaranteed acceptance” and “portable insurance policy”. Given the public’s diverse views on the proposed establishment of the HRP, we consider that a more prudent approach is to separate the consideration of them from the other proposed Minimum Requirements which have received broad support in the public consultation exercise. In order not to delay the implementation of the VHIS, we propose to adopt a phased approach by launching a VHIS with ten Minimum Requirements and re-examine the HRP

proposal, related Minimum Requirements and the need of legislation, at a later stage, taking into account, among others, the experience of actual implementation of the VHIS.

23. We also propose to make some refinements to the originally proposed Minimum Requirements. These include permitting case-based exclusions of pre-existing conditions, subject to the standardisation of wordings of the exclusion clauses to be drawn up in consultation with stakeholders and availability of an option to choose premium loading for covering pre-existing conditions in the case of Standard Plan; relaxing the cost-sharing restrictions; making the migration arrangement more flexible; and providing more flexibility in the design of Flexi Plan.

24. In the Consultation Document, we proposed that insurers might offer, on a group basis, Voluntary Supplement(s) to individual employees who wish to procure additional protection on top of their group cover. During the consultation period, we received views that people already with group coverage might prefer to purchase an individual-based plan with benefit limits lower than that of a Standard Plan instead of group-based Voluntary Supplement(s). In this regard, the refined proposal that allows insurers to offer various forms of hospital insurance products alongside VHIS-compliant products can address their concern and provide the choices needed. Under the refined proposal, insurers will also be encouraged to offer Conversion Option to facilitate people with group coverage to purchase an individual-based plan.

25. With regard to dispute resolution, we have further examined the necessity and desirability of setting up a separate CDRM to settle claims disputes related to VHIS policies, since a number of submissions pointed out that there already exist a wealth of resources and expertise in handling claims disputes, most notably the ICCB. As revealed by the statistics of the ICCB, the vast majority of current disputes of health insurance claims concern the application of policy terms, exclusion items and non-disclosure. We consider that the standardisation of wordings of the exclusion clauses as well as policy terms and conditions, combined with the improvements in transparency and budget certainty under the VHIS through Informed Financial Consent, should help reduce and resolve most of these claims disputes. Taking into account the above, we propose that the ICCB should continue to handle claims disputes arising from individual health insurance policies, including VHIS policies.

26. Regarding the tax concession, only VHIS-compliant products would be eligible. We will further examine the relevant arrangements and details, including the annual ceiling on claimable premiums and the cap on the number of dependants' policies. As regards other types of financial incentives such as

direct premium subsidy, we are of the view that any proposal must be carefully examined having regard to various considerations such as the amount of public funding required, cost-effectiveness in encouraging take up of VHIS policies, administration cost, possibility of abuse, etc., so as to ensure the prudent, reasonable and cost-effective use of public money.

27. To implement the VHIS, the Food and Health Bureau (FHB) will issue a set of VHIS practice guidelines encompassing the Minimum Requirements and the ancillary proposals, as refined. The Independent Insurance Authority (IIA) will, in parallel, be invited to issue a Guidance Note under the Insurance Companies Ordinance (Cap. 41) on the principle of fair treatment of clients and other relevant considerations to provide guidance on various aspects of conducting Hospital Insurance business under which insurers would be recommended to comply with the VHIS practice guidelines. In certain extreme cases, the FHB may refer such cases to the IIA for consideration if the action would amount to a "misconduct" in the Insurance Companies Ordinance. If the IIA considers that the failure amounts to misconduct, it can consider taking appropriate disciplinary actions for the misconduct, including the order of a pecuniary penalty, reprimand, or even revocation or suspension of the authorisation of the insurer. We will set up a VHIS office under FHB to certify VHIS-compliant products and engage key stakeholders in taking forward the VHIS.

**Annex B**

## Product Definitions under the Refined Proposal

Under the refined Voluntary Health Insurance Scheme (VHIS), there will be two types of compliant individual Hospital Insurance products, namely the Standard Plan and the Flexi Plan. Their definitions are listed out as follows –

(i) Standard Plan

- Insurers must offer to all consumers as one of the available options.
- Standard Plan has fixed product template in terms of standard policy terms and conditions, benefit coverage, benefit limits and cost-sharing arrangement, etc.
- Standard Plan must meet but not exceed all Minimum Requirements.
- Insurers may accept or reject a subscription. For subscribers with pre-existing conditions, insurers may offer acceptance subject to exclusion clauses for these conditions (e.g. cataract) in the insurance policies, but should concurrently provide an option of covering pre-existing conditions with premium loading and waiting period. Moreover, the exclusion clauses for pre-existing conditions are subject to a set of guiding principles and interpretations to be developed by the Food and Health Bureau (FHB) as part of the practice guidelines for VHIS.
- Standard Plan is eligible for tax deduction.

(ii) Flexi Plan

- Insurers may opt to offer Flexi Plan to consumers as available option or not.
- Flexi Plan has modular product design, encompassing basic coverage tantamount to Standard Plan plus add-on hospital insurance coverage of which product template is not fixed (e.g. higher benefit limits, broader hospital benefit coverage, etc.).

- Flexi Plan must meet or exceed all Minimum Requirements for the basic coverage tantamount to Standard Plan.

- Flexi Plan must meet some but not all of the Minimum Requirements for the add-on coverage (e.g. more relaxed cost-sharing arrangement to allow flexibility in product design), subject to further deliberation with stakeholders.

- Insurers may accept or reject a subscription. For subscribers with pre-existing conditions, insurers may offer acceptance subject to exclusion clauses for these conditions (e.g. cataract) in the insurance policies. The exclusion clauses are subject to a set of guiding principles and interpretations to be developed by FHB as part of the practice guidelines for VHIS. Unlike Standard Plan, insurers need not provide an option of coverage of pre-existing conditions.

- Flexi Plan is eligible for tax deduction.

**Annex C**

## Applicability of the Minimum Requirements of the Voluntary Health Insurance Scheme

| Minimum Requirement | Applicability |
|---|---|
| ● Guaranteed renewal | All plans |
| ● No "lifetime benefit limit" | ● Standard Plan<br>● Flexi Plan (basic coverage) |
| ● Coverage of hospitalisation and prescribed ambulatory procedures | ● Standard Plan<br>● Flexi Plan (basic coverage) |
| ● Coverage of prescribed advanced diagnostic imaging tests and non-surgical cancer treatments | ● Standard Plan<br>● Flexi Plan (basic coverage) |
| ● Budget certainty (No-gap/known-gap and Informed Financial Consent) | ● No-gap/known-gap: Standard Plan and Flexi Plan (basic coverage)<br><br>● Informed Financial Consent: All plans |
| ● Standardised policy terms and conditions | ● Standard Plan<br>● Flexi Plan (basic coverage) |
| ● Premium transparency | All plans |
| ● Minimum benefit limits | ● Standard Plan<br>● Flexi Plan (basic coverage) |
| ● Cost-sharing restrictions | ● Standard Plan<br>● Flexi Plan (basic coverage) |
| ● Coverage of pre-existing conditions | Standard Plan only:<br>Insurers are required to provide an option of covering pre-existing conditions (with or without premium loading) when offering acceptance to subscribers for Standard Plan<br><br>All plans:<br>Exclusion clauses subject to a set of guiding principles and interpretations |

| Minimum Requirement | Applicability |
|---|---|
| ● Portable insurance policy | Subject to the introduction of the High Risk Pool (HRP). |
| ● Guaranteed acceptance with 200% premium loading cap | Subject to the introduction of the HRP. |

Note: Details of the applicability of the Minimum Requirements are subject to further deliberation with stakeholders.