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Panel on Health Services

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Voluntary Health Insurance Scheme

Further to the public consultation in 2005 on the future service delivery model of the healthcare system,¹ the Government initiated a two-stage public consultation exercise to take forward the reform. On 13 March 2008, it put forth a package of healthcare service reforms and six possible supplementary healthcare financing options² in the First Stage Healthcare Reform Consultation Document entitled "Your Health Your Life". Based on the outcome of the first stage consultation which revealed strong public resistance to any supplementary healthcare financing options of a mandatory nature, the Government proceeded to develop possible policy options along the principle of voluntary participation.

2. On 6 October 2010, the Government published the Healthcare Reform Second Stage Public Consultation Document entitled "My Health My Choice" in which a voluntary and government-regulated PHI scheme, the Health Protection Scheme ("HPS")³, was proposed for public consultation as health insurance was perceived as a relatively stable healthcare financing source which was less affected by economic cycles. It was proposed that insurers would be required

¹ The Health and Medical Development Advisory Committee ("HMDAC") released a Discussion Paper entitled "Building a Health Tomorrow" on 19 July 2005 proposing the future service delivery model of the healthcare system.

² The six options put forth for addressing the long-term sustainability of healthcare financing were (a) social health insurance (i.e. mandatory contribution by the workforce); (b) out-of-pocket payments (i.e. increase user fees for public healthcare services); (c) medical savings accounts (i.e. mandatory savings for future use); (d) voluntary private health insurance; (e) mandatory private health insurance; and (f) personal healthcare reserve (i.e. mandatory savings and insurance).

³ As HPS is intended as a supplementary financing arrangement, the Administration renames the scheme as Voluntary Health Insurance Scheme in the consultation document published on 15 December 2014 to better reflect its objectives and nature.

to offer standardized indemnity insurance plans that would enable the insured to access general ward class of private healthcare services when needed. Key features of the proposed HPS products involved a range of requirements on operational rules, benefit structure and other consumer protection measures.

3. According to the Healthcare Reform Second Stage Public Consultation Report released on 11 July 2011, members of the public have expressed support for the introduction of HPS to enhance transparency, competition and efficiency of private health insurance for the provision of an alternative to those who are willing and may afford to pay for private healthcare services. A three-pronged action plan was adopted to take forward HPS, which included, among others, setting up a Working Group and a Consultative Group on HPS under HMDAC to make recommendations on matters concerning the implementation of HPS. To provide professional and technical support to the Working Group and the Consultative Group, the Administration commissioned a Consultant⁴ to study and advise on key issues relating to HPS, inter alia, the formulation of a viable and sustainable product design for HPS and areas where public funding could be considered to ensure the viability and sustainability of HPS.

4. With reference to the deliberation by the Working Group on HPS and the Consultant's recommendations, the Government published the Consultation Document on Voluntary Health Insurance Scheme ("the 2014 Consultation Document") on 15 December 2014 putting forth the detailed proposals for implementing a Voluntary Health Insurance Scheme ("VHIS") for public consultation. It was proposed that all individual indemnity hospital insurance products would be required to meet or exceed a proposed set of 12 Minimum Requirements upon the implementation of VHIS. The proposed Minimum Requirements for a Standard Plan⁵ include:

Improving accessibility to and continuity of insurance

- (a) guaranteed renewal without re-underwriting;
- (b) no "lifetime benefit limit";
- (c) coverage of pre-existing conditions subject to a standard waiting period and reimbursement arrangement during the waiting period (i.e. no coverage in the first year; 25% reimbursement in the second year; 50% reimbursement in the third year; and full coverage from the fourth year onwards);

⁴ PricewaterhouseCoopers Advisory Services Limited.

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

- (d) guaranteed acceptance with premium loading capped at 200% of standard premium⁶ for (i) all ages within the first year of implementation of VHIS; and (ii) those aged 40 or below starting from the second year of implementation of VHIS;⁷
- (e) portable insurance policy with no re-underwriting when changing insurers, provided that no claims were made in a certain period of time immediately before transfer of policy;

Enhancing quality of insurance protection

- (f) coverage of hospitalization and prescribed ambulatory procedures;
- (g) coverage of prescribed advanced diagnostic imaging tests, subject to a fixed 30% co-insurance, and non-surgical cancer treatments up to a prescribed limit;
- (h) minimum benefit limits;
- (i) no cost-sharing (deductible or co-insurance) by policyholders except the fixed 30% co-insurance for prescribed advanced diagnostic imaging tests; and an annual cap of \$30,000 on cost-sharing by policyholders (excluding excess amount payable by policyholders if actual expenses exceed benefit limits);

Promoting transparency and certainty

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

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

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

- (k) standardized policy terms and conditions; and
- (l) transparent information on age-banded premiums through easily accessible platform.

It was proposed that, as a financial incentive for VHIS, tax reduction would be introduced for premiums paid for individual indemnity hospital insurance policies owned by taxpayers covering themselves and/or their dependants⁸ that comply with the Minimum Requirements; and premiums paid for Voluntary Supplements purchased by individuals on top of their group indemnity hospital insurance policies.

5. The consultation exercise lasted for four months until 16 April 2015. According to the Administration, there is broad support for the concept and policy objectives of the proposed VHIS. However, the insurance industry, while in general supported the policy objectives of VHIS to provide enhanced health insurance protection for consumers, has expressed concerns over some of the specific proposals put forth in the 2014 Consultation Document, including the two Minimum Requirements of guaranteed acceptance and portable insurance policy, as well as the sustainability of the proposed High Risk Pool. This apart, it suggested implementing VHIS through means other than the legislative route, including the option of allowing insurers to enter into a self-regulating industry agreement or inviting the Office of the Commissioner of Insurance ("OCI") or the independent Insurance Authority ("IIA")⁹ to promulgate relevant guidance notes. The original plan of the Administration was to iron out the way forward for implementing VHIS having regard to the views received from the community and those reflected by the Hong Kong Federation of Insurers, and release the consultation report in 2016.

6. The Subcommittee on Health Protection Scheme appointed by the Panel in the Fifth Legislative Council has studied in detail issues relating to the introduction of a voluntary and government-regulated private health insurance scheme. Members may refer to the report submitted by the Subcommittee to

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

⁹ IIA is a new insurance regulator independent of the Government. It will take over the statutory functions of OCI on the regulation of insurance companies and administer a new statutory licensing regime for insurance intermediaries to replace the existing self-regulatory regime. According to the Administration, it is anticipated that IIA will be ready to take over OCI's statutory functions in the first or second quarter of 2017.

the Panel in July 2016 (LC Paper No. CB(2)1915/15-16)¹⁰ for the deliberations and recommendations of the Subcommittee.

7. On 9 January 2017, the Government released the Consultation Report on VHIS. The Consultation Report is available online at http://www.vhis.gov.hk/en/consultation_report/index.html. The Administration will brief the Panel on the Consultation Report at the meeting on 16 January 2017.

Council Business Division 2
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¹⁰ The report of the Subcommittee is available at the Legislative Council website http://www.legco.gov.hk/yr15-16/english/panels/hs/hs_hps/reports/hs_hpsc2-1915-e.pdf.