IFPHK's Response to "My Health, My Choice" Healthcare Reform Second Stage Consultation Document Issued by the Food and Health Bureau on Voluntary Health Protection Scheme

January 2011

Contents

IFPHK Profile

Background

The Institute of Financial Planners of Hong Kong ("IFPHK") was established in June 2000 as a non-profit organization for the fast–growing financial industry. It aims to be recognized in the region as the premier professional body representing financial planners who uphold the highest standards that benefit the public.

The Institute is the sole licensing body in Hong Kong authorized by Financial Planning Standards Board Limited[1] to grant the much-coveted and internationally-recognized CFP[2] certification to qualified financial planning professionals in Hong Kong and Macau.

It represents more than 10,000 financial planning practitioners in Hong Kong from such diverse professional backgrounds as banking, insurance, independent financial advisory, stockbroking, accounting, and legal services.

Currently there are over 126,000 CFP professionals in 23 countries/regions; the majority of whom are in the U.S., Canada, Australia and Japan. There are more than 4,000 CFP professionals in Hong Kong.

To develop and maintain a high professional standard, IFPHK has put in place a vigorous certification process to ensure that all its CFP professionals meet the requisite standards known as the 4Es, namely education, examination, experience and ethics.

The CFP professionals are also required to follow the FPSB 6-step financial planning process in their front-line activities that is designed to provide suitable advice to clients. These include:

Step 1: Establish and define the relationship with the client
Step 2: Collect the client's information
Step 3: Analyze and assess the client's financial status
Step 4: Develop the financial planning recommendations and present them to the client
Step 5: Implement the client's financial planning recommendations
Step 6: Review the client's situation

Promotion of professionalism

Since its inception, IFPHK has been striving to raise public awareness of the financial planning industry in Hong Kong and highlight the high standards that CFP professionals adhere to. In addition to consumer seminars, IFPHK has jointly organized with regulators various projects, including developing educational literature and organizing pro bono financial clinics. In 2006, with contributions from our patrons, leading industry practitioners and experts, IFPHK published the *IFPHK Practice Guide for Financial Planners*. The Guide is the first set of guidance materials for financial planners to practice in Hong Kong. To

[1] FPSB was established in October 2004 by 17 non-profit associations that together certify over 45,000 individuals outside the U.S. to use CFP[CM], CERTIFIED FINANCIAL PLANNER[CM] and CFP[CM] marks and that have joined FPSB as members. FPSB will protect financial planning consumers and foster professionalism in financial planning through the ongoing development and enforcement of relevant international competency and ethics standards. FPSB will also promote greater global recognition of CFP certification and its related marks as the international hallmarks of financial planning professionals.CFP[CM], CERTIFIED FINANCIAL PLANNER[CM] and CFP[CM] are certification marks owned outside the U.S. by Financial Planning Standards Board Ltd. (FPSB). The Institute of Financial Planners of Hong Kong is the marks licensing authority for the CFP marks in Hong Kong and Macau, through agreement with FPSB.

[2] CFP[CM], CERTIFIED FINANCIAL PLANNER[CM] and CFP[CM] are certification marks owned outside the U.S. by Financial Planning Standards Board Ltd. The Institute of Financial Planners of Hong Kong is the marks licensing authority for the CFP marks in Hong Kong and Macau, through agreement with FPSB.

supplement this effort, IFPHK launched the first Guidance Note entitled *Suitability of Advice Obligations: Documenting your Financial Advice* for members. In the near future, we will continue providing more practical support to members and will target to roll out more guidance notes for practitioners' daily references.

In 2010, IFPHK participated in a global job analysis review that analyzed financial planning job skills. Through this process, IFPHK gained professional insights into core characteristics and practice *vis-à-vis* Hong Kong's financial planning practitioners and international CFP professionals.

IFPHK's interest in this consultation

Insurance is considered the cornerstone of financial planning and an important part of our financial planning education and certification program. Effective and proper use of insurance products can help mitigate health and financial risks.

Insurance plays a crucial role in financing healthcare. It is a vehicle that people can use to protect themselves from rising medical costs and ensure access to health care when they need it.

IFPHK as the leading professional body serving the financial planning community is obliged to respond to any policy changes that affect the business of IFPHK's member and their clients. As such, IFPHK has a track record of expressing our views on changes that have far reaching impacts on the insurance industry.

In 2008, IFPHK responded to healthcare reform first stage consultation document "Your Health, Your Life" where we underscored our preference for a hybrid financial model for mandatory health insurance, voluntary private insurance and personal health care reserve. In September 2010, IFPHK responded to the proposed establishment of an independent insurance authority where we agreed to the setting up of an independent regulator for the insurance industry with the appropriate powers, structure, well defined objectives with appropriate checks and balances, and sufficient resources.

Ageing is becoming a huge concern in Hong Kong. The average age is projected to increase from around 40 in 2007 to around 48 in 2033 and then 50 by 2050. The demographic shifts will have a profound impact on the economy as the number of working-age people shrinks and the number of non-working grows. The share of public funds towards healthcare financing has also increased steadily from 40% in 1989/90 to around 50% in 2004/05. Whilst IFPHK recognizes the urgency of finding a supplementary healthcare financing option, we are also concerned about the impacts of the reform on the financial planning and the insurance industry.

IFPHK's representation

IFPHK had 30 founding members who contributed to its inception and foundation. These members believed in raising the standard of financial planners and awareness of the importance of sound financial planning. Out of these 30 founding members, 8 were insurance companies:

- American International Assurance Company (Bermuda) Limited
- AXA China Region Insurance Company Limited
- Ageas Insurance Company (Asia) Limited (Formerly Fortis Insurance Company (Asia) Limited)
- Manulife (International) Limited
- New York Life Insurance Worldwide Limited
- Sun Life Hong Kong Limited
- The Prudential Assurance Company Limited
- Zurich Life Insurance Company Limited

We currently have 64 corporate members that include a total of 33 insurance companies and financial planning firms. These corporate members employ over 33,000 insurance practitioners. IFPHK therefore is

well positioned to understand the needs, concerns and aspirations of the long term insurance market players. When formulating its response to the consultation, it has sought the views of many of its corporate members who are active in the market.

The statements given in IFPHK's response to the Consultation Paper are based on an objective and independent analysis of the market and consumer needs. Industry view has been proactively sought through extensive interviews with our corporate members, professional bodies and experts in the insurance field to ensure that IFPHK understood the concerns and sentiment of the market. They have all been considered by IFPHK. The views of IFPHK are largely aligned with those collected from the market but it should be noted that not all members agreed with the views expressed in this paper.

Executive Summary

The Food and Health Bureau ("FHB") issued the Heathcare Reform Second Stage Consultation Document (the "Consultation Paper") on 6 October 2010 and invited comments from the insurance industry and the public on the relevant proposals set out in the Consultation Paper.

The healthcare reform has been the subject of a strong political debate over the past two decades. The Government launched the first stage of consultation in 2008, despite diverse views on the financing options. There is a general consensus on the need to reform the existing healthcare system to meet future demand. In this regard, the Government put forward the proposal of a voluntary government-regulated health protection scheme ("HPS" or the "Scheme") in this Consultation Paper. In the submission paper to the first stage healthcare reform consultation document "Your Health, Your Life", IFPHK suggested a mixed model for mandatory and voluntary medical insurance. Despite the fact that this Consultation Paper ended in a long stalemate with the Government, IFPHK expresses its disappointment that this Consultation Paper does not include a proposal of a mandatory medical insurance scheme. Notwithstanding of the above, IFPHK agrees it is pertinent to assume that by encouraging those who can afford to pay to utilize private healthcare sector, more resources can be freed up and allocated to the poor.

In light of the proposed changes in the Consultation Paper, IFPHK's position in this submission paper is based on the following three important principles about healthcare financing:

- To maintain the universal access to high-quality healthcare services
- To ensure the proper use of fiscal reserve on health expenditure
- To build a sustainable and affordable healthcare financing system

In summary, some of the proposed changes are based on simple assumptions that have not undergone thorough scenario-based studies. IFPHK advises that the Government should not underestimate the challenges ahead. Besides, a simple scheme may be costly to administer and not be economical to the society. IFPHK fears that these factors may eventually jeopardize the three important principles of a healthcare reform as stated above. IFPHK considers that a voluntary Scheme will only be feasible and sustainable when it meets the following conditions:

IFPHK supports:

- The establishment of medical benchmark to contain medical costs and control the standards of private healthcare sector. Besides, it offers price certainty to the patients and the insurers, and helps the insurance industry to estimate costs and risks.
- The commitment of private healthcare service providers to ensure there is adequate private healthcare capacity reserved for the HPS. Else, the Government is only offering false expectations to the consumers.
- The assurance of a financially viable membership base that brings about material impact on market development. IFPHK urges the Government to lead the way. As one of the largest employers, the Government is well placed to become a role model by participating in the HPS.

IFPHK concerns:

- The mandatory acceptance of High Risk Individuals in a voluntary scheme. IFPHK advises the Government not to create a market that is unsustainable. The High Risk Group should be subsidized directly through social means and not indirectly through private channels.

- The establishment of a new dedicated agency solely for the purpose of monitoring the HPS. IFPHK considers such a proposal as duplication of supervision and accumulation of supervisory bodies at the expense of the taxpayers. It also adds unnecessary compliance and administrative costs that can be onerous to the insurance practitioners. IFPHK considers the proposed independent Insurance Authority will play a pivotal role in governing the HPS.

- Any restrictions on profit margins of HPS. With transparent prices, the market will be normalized through competition. Thus it is unwarranted and unjustified for the Government to control the insurers' profit.

- Mixing one-off incentive of premium discount with the scheme feature of non-claim discount, the Government is actually offering false hopes to patients and creating problems for the insurers. Some incentives (e.g. one-off premium discount for all) are short sighted that aim solely to create a market that is risky and unsustainable.

IFPHK suggests:

Before implementing any of the suggested reforms, IFPHK advises the Government to engage in a detailed, direct roundtable discussion with all stakeholders, which should include insurers, healthcare service providers and the patients. While IFPHK recognizes that healthcare reform is a long journey and agrees on the Government's step-by-step approach, we suggest that the Government take the following long-term measures:

- *Consumer education*
  Mindset change needs to be transformed slowly through consumer education. Thus, the Government should draft a thorough publicity and education program that focuses on an individual's responsibility towards their own health that includes, inter alias, his or her own health expenditure. The insurance and financial planning industry has the knowledge and experience to assist the Government on educating the public. The Government can consider taking Singapore's experience by forming private-public partnerships with the private insurers and the private healthcare sector on promoting health awareness. Health-conscious Hong Kong people can reduce the overall Government's health expenditure and lower the loss ratio for the insurers.

- *A holistic healthcare reform roadmap*
  A healthcare financing system includes the process of collecting revenue, pooling, purchasing and delivering[3]. This Consultation Paper only contains changes on healthcare collecting revenue and pooling. Given the complexity of healthcare financing, a simple plan may not be able to kill two birds in one stone which are building a sustainable healthcare system and relieving the pressure of the public healthcare services. There is a need for the Government to plot a comprehensive and holistic roadmap on healthcare reform. The roadmap should cover all facets of a healthcare system. Each facet requires careful attention and detailed planning to ensure a fully integrated system. Without a cohesive solution to a highly integrated healthcare system, the universal coverage of sustainable, affordable and accessible healthcare will be jeopardized.

[3] The World Health Organization (2000). The World Health Report 2000: Health Systems: improving performance. Revenue collection is the process by which the health system receives money from households and organizations or companies e.g. general taxation. Pooling is the accumulation and management of revenues in such a way as to ensure that the risk of having to pay for health care is borne by all the members of the pool and not by each contributor individually. Purchasing is the process by which pooled funds are paid to providers in order to deliver a specified or unspecified set of health interventions.

IFPHK recognizes that there is no magic bullet or a one-size-fits-all solution for a medical reform. IFPHK foresees if properly designed and implemented, the HPS can be a catalyst to drive series of medical reforms that follows.

The FHB Consultation

Healthcare reform has been a debate for more than two decades since the Harvard Report published in 1999[4]. Despite the various proposals set forth by the Government, the development of a new healthcare system remains at a standstill due to split opinions. In March 2008, the Food and Health Bureau ("FHB") issued a Consultation Paper "Your Health, Your Life" to seek public views on the future of Hong Kong's health care system ("the First Stage consultation"). Building on the views received on the First Stage consultation, the FHB issued another consultation document with the theme "My Health, My Choice" putting forward a voluntary Health Protection Scheme ("HPS" of the "Scheme") on 6 October 2010 ("Consultation Paper"). The Consultation Paper is concerned, inter alia, with the proposal of a voluntary, Government regulated HPS for providing more choices with better protection to those who choose to subscribe to private health insurance and use of private healthcare service. The Government envisages that the proposed changes would provide a blueprint for tackling challenges such as the costs associated to "silver tsunami"[5], the growing burden for public medical expenditure, and the worsening public-private healthcare imbalance.

The HPS is designed to be modular. The insurers are to offer a Government-regulated standard plan that covers medical conditions requiring hospital admissions or ambulatory procedures, and associated specialist services and diagnostic imaging chemotherapy or radiotherapy for cancer. Subscribers can buy top-up options to cover benefits that are not included in the standard plan.

To gain support from the public, the Government proposed to include ten features in the HPS under the following themes:

To ensure equity of access to the HPS

1. No turning away of subscribers and guaranteed renewal for life
2. Age-banded premiums subject to adjustment guidelines
3. Cover for pre-existing medical conditions subject to waiting period
4. High-risk individuals insurable with a cap on premium loading
5. Risk arising from accepting high-risk groups to be shared out through High-Risk Pool industry reinsurance

To provide incentives for public to take out insurance earlier and stay longer

6. No-claim discount for premiums (up to 30%)
7. Insurance plans renewable on leaving employment and portable between insurers

To provide a supervisory structure supporting the HPS

8. Insurers required to report all costs, claims and expenses
9. Standardized health insurance policy terms and definitions
10. Establishment of a Government-regulated health insurance claim arbitration mechanism

The HPS is intended to better ensure the quality and value-for-money of private healthcare services and private insurance. It takes a step in enhancing the long-term sustainability of the healthcare system. It also aims to ease the pressure on the public healthcare system. To this end, the Government has pledged to draw HK$50 billion from fiscal reserve to support the healthcare reform. The fund will be used to provide incentives to encourage the public to participate in the HPS. These incentives include injection to the High Risk Pool, subsidy for paying the premium discounts for a certain period after launch, and subsidy on the saving option for paying future premium.

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[4] The Harvard Team published in April 1999 a report named "Improving Hong Kong's Health Care System: Why and for Whom?" (Well known as the Harvard Report). The report pointed out two major issues in Hong Kong's healthcare policy. The first issue is related to financing. The second issue is related to delivery system.

[5] The Silver Tsunami represents the rapid increase of ageing population. Hong Kong is facing a very steep ageing profile. The average age is projected to increase from around 40 in 2007 to around 48 in 2033 and then 50 by 2050.

The Consultation Paper contains nine questions in 3 parts relating to the proposals of voluntary health protection scheme on the following areas for the industry or public to provide comments:-

Part 1: General Views

Part 2: HPS Designs

Part 3: Financial Incentives for HPS

IFPHK Response Methodology

IFPHK is a professional body, seeking to promote higher professional standards in the financial planning practice. It believes that it is important to respond to consultation and policy papers that have significant impact on the financial planning sector. When formulating its response to such papers, it takes a systematic approach that includes the following:-

I. An independent and objective study of the proposals on the overall impact, positive and negative, on the industry and consumers based on theoretical and critical analysis
II. Study of international practices of markets that are either more developed or similar to Hong Kong to understand how similar proposals may have succeeded or failed and the reasons why that happened
III. Collection of comments and opinions from the relevant sector in the industry, ensuring that views sought represents all the different segments of the industry categorized by size and business model.

Independent study of the Consultation Paper

The Policy and Regulatory Affairs Department of IFPHK has studied the proposals stipulated in the Consultation Paper as well as practices in other countries with well developed insurance markets and regulatory frameworks. It has sought to understand the background of some of the changes in the regulatory landscape overseas and try to ascertain objectively whether they could be applied to Hong Kong.

Interviews with Insurance Industry Leaders

During the three-month consultation period, IFPHK conducted interviews and discussions with the Chief Executive Officers, Group medical plan professionals or agency management of some of the largest as well as medium-sized insurance companies in Hong Kong. Most of these industry representatives are industry leaders and professionals who have ample work experience in insurance or re-insurance businesses. Due to their representation in some other industry bodies, their names are not disclosed. IFPHK thanks them for their strong support and invaluable advice.

Views sought from Individual Members

IFPHK had also invited comments from our individual members on the various proposals set out in the Consultation Paper. Communications was made to each individual member to highlight the changes proposed in the Consultation Paper and invited them to send their feedback to IFPHK directly in regards to any concerns. IFPHK received valuable comments from our individual members and some of which have been reflected in this submission paper.

IFPHK's Independent Response

After collecting and consolidating the industry views from various levels, IFPHK analyzed the information obtained together with the data collected from its own research and its overseas affiliates in relevant markets including the Australia, Canada, Japan, Netherlands, Singapore, South Korea, Switzerland and Taiwan. IFPHK understands that healthcare systems are difficult to replicate due to difference in social and political landscapes, and healthcare reforms are usually tailored to the individual country's socioeconomic, political and geographic circumstances. Lessons learnt from other countries are, however, viewed as useful and valuable sources of information for IFPHK to assess the proposal.

IFPHK then came up with the responses to the various questions raised in the Consultation Paper as well as recommendations on the practical application and effectiveness of the relevant proposals, taking into account the likely impact on the industry. **As such, the views expressed in this submission paper are not necessarily summaries of views from the industry but one that had undergone more**

independent and critical analysis and consideration by IFPHK as a professional institute. As a result, not all the views collected by IFPHK are recorded in this submission paper and neither have all the views expressed in this submission paper been directly endorsed by the industry representatives or members consulted.

IFPHK's Submission

The submission set out below is the result of IFPHK's view-seeking process in addition to its own independent internal analysis. IFPHK endeavored to consider as the first priority the impact on the retail consumers as well as the practical implication on the business of the financial planners who also advise on and provide professional services for insurance planning in Hong Kong. It is therefore appreciated that some of our members may hold slightly different views and that IFPHK has worked together with our members to come up with the following responses and recommendations that take into account the majority view of the industry.

Consultation Questions raised in the Consultation Paper

Part 1: General Views

1.1 Do you support introducing the voluntary HPS providing health insurance standardized and regulated by the Government?

IFPHK's Response

IFPHK agrees on the principles and rationale of strengthening healthcare financing through private means. However, IFPHK doubts whether it is viable to launch a voluntary scheme based on the design of a mandatory scheme but without any commitment on membership base. The uncertainty and ambiguity over the details of the HPS and the corresponding infrastructure prevents it from getting strong support of all stakeholders.

IFPHK recognizes there is an urgency to introduce additional healthcare financing options to cope with the future boom of ageing population and the associated medical costs. Whilst it is logical for the Government to let the private insurance share part of the future medical costs, IFPHK and some of the industry players who IFPHK interviewed are disappointed that the Government discarded the proposal of a mandatory health insurance scheme under the prevailing social and political landscape. IFPHK and the industry players are skeptical on the feasibility of implementing a voluntary scheme based on the design of a mandatory scheme. Nevertheless, IFPHK appreciates that the Government has incorporated some of the cost containment measures (e.g. waiting period, deductibles) as suggested by the insurance industry into the Scheme.

There are a number of drawbacks on the design of the HPS. Firstly, it is difficult to gain economies of scale and establish effective risk pooling with a voluntary scheme. Secondly, some of the proposed features of the Scheme are very severe on the insurers. Thirdly, the support of the private healthcare sector is questionable.

Industry practitioners worry that a voluntary HPS may not be able to attract sufficient membership numbers to have an actuarially sound risk pool. Insurance works by pooling the risk of high health care costs across a large number of people, permitting them to pay a premium based on the average cost of medical care for a group of people. Low penetration rate will affect the effective running of such a risk pooling mechanism. The initial target of the Government is to enroll half a million Hong Kong people into the HPS. However, this figure has yet to incorporate administration costs and the good-bad risk ratio. IFPHK perceives that the Scheme may need a larger pool to cover all the costs and risks. Without a defined pool of insured, it is very difficult for the insurers to estimate risks and set pricing. While the Government is spending dollars on persuading the public to join the Scheme, there is no indication that they will set an example by being the first employer to join the Scheme.

While endeavoring to solve the problem of equity by mandating the insurers to take on high-risk groups, the Government is also creating a situation of adverse selection. Basically, it is a phenomenon whereby

insurance plans attract high risk patients seeking protection, whereas low-risk patients avoid insurance[6]. Much of the insurance practice nowadays is designed to avoid adverse selection. The **mandatory** acceptance of a high-risk pool in a **voluntary** HPS significantly alters the insurance practice.

Yet the dark cloud on the horizon is the collaboration with the private healthcare sector. At present, doctors in the private practices are charging fee-for-payment. Given that the packaged charges system as suggested in the Consultation Paper is completely different from current fee-for-payment system, it is doubtful whether the private hospitals are willing to yield. Without any effective measure to control the costs and services of the private healthcare sector, IFPHK perturbs that there will be a supply-side moral hazard where suppliers of health care services giving un-necessary services for financial gain.[7]

Like their public counterparts, the private hospitals are also saturated and are insufficient to support the increasing demands arising from the introduction of the HPS. With limited supply, there are concerns whether the private hospitals can provide adequate supply for the HPS insured. The Government's Task Force on Economic Challenges ("TFEC") has recommended the development of medical services as one of the six industries crucial to the development of Hong Kong's economy. According to the TFEC focus group discussions, attracting inbound medical tourists from mainland China appears to be one of the key objectives of this initiative[8]. Given that the proposal did not require any commitment or undertaking of the private healthcare sector to reserve part of their beds to the Scheme, it is believed that the priority of the private hospital beds will be given to those who can afford to pay more.

If there is no policy to control medical inflation and ensure stable supply for the HPS, Hong Kong may follow the footstep of the "failed American" model, resulting in the availability of quality medical care only to the rich. Indeed, United States gets a high Private Health Insurance rate of 36.6% yet it is the only developed country without universal coverage on healthcare. As such, the principle of universal access to quality healthcare services will be contravened.

Besides, the Insurance Industry has not validated the premium schedule. Industry players who IFPHK interviewed pointed out that the premium schedule as stipulated in the Consultation Paper is based on the assumption of having a package-charge system implemented in the private health care sector. The premium charges also omit the business costs of the insurers that include costs to shareholders, commissions to agents and the administrative costs. According to the industry players who IFPHK interviewed, these three costs account for approximately 20% of the total costs of medical insurance. Thus, the premium schedule suggested may not be reasonable and realistic to cover all the costs of running the HPS.

In addition, the HPS only covers medical conditions and investigations that are associated with the required hospital admission or ambulatory procedure. Insurance practitioners claim that without a proper definition of medical necessary criteria, one risks demand-side moral hazard where the patients consume services excessively disregard the costs involved[9]. Though co-insurance arrangements are used to curb the abuse of hospital services, the details of the execution arrangements are obscure in the Consultation Paper. It did not state whether the co-payment should be paid before or after hospital admission, if the co-payments are charged and disclosed to the patients after hospital admission, the patients will have to pay the shortfalls when the medical bills exceed the patient's budget after treatment. The insurance players who IFPHK interviewed were concerned that the shortfalls from the HPS may end up as huge bad debts for the insurers.

Many critics against the HPS argued that the Government is transferring the health cost to the public by offering handsome profits to the private insurance industry without regard to the increased burdens on the

6 Health care funding and deliver in Hong Kong: what should be done by LS Ho

7 ibid

8 Jit Soon Lim, HK's shift towards private healthcare, 26 January 2010.

9 LS Ho, Health care funding and delivery in Hong Kong: what should be done?, 2 June 2001

public. IFPHK felt that it is an unfair statement since the medical insurance is providing very thin margins to the insurers. Instead of targeting high returns, the insurers use health insurance as an anchoring product for cross selling opportunities of other insurance products. Given HPS has no guarantee on pool size and medical costs, it may actually pose higher risks to the insurers at lower or negative margins.

In this regard, IFPHK hesitates in giving a full support to the proposals without further clarification and refinement by the Government. To address the above concerns, IFPHK urges the Government to take the following actions immediately:

- *Liaise with all the stakeholders to ensure consensus on the Scheme*
  The HPS cannot be implemented without the collective support of the public (who subscribe), the insurers (who promote) and the private medical service provider (who deliver). The Government should play the pivotal role in connecting all parties together, especially the private insurance and private healthcare professionals, to come up with an agreed-upon terms and conditions for the HPS.

- *Validate the scheme features with the insurance practitioners*
  As aforementioned, the premium schedule does not cover all the costs associated in running a HPS and the assumptions of the HPS have not been verified by the insurance industry. Thus, there is an imminent need for the government to work closely with the insurance industry in order to determine an acceptable and reasonable schedule. Also, the Government should undergo more comprehensive scenario based study to estimate whether the benefit limits and the private healthcare supplies assumed in the Consultation Paper are able to meet complex medical procedures.

With reference to the overseas experience, IFPHK acknowledges that healthcare reform can be a long and painful journey. In order to facilitate a paradigm shift and a smooth transformation, IFPHK suggests that the Government should increase investment on the following areas in the long run:

- *Educate the public on health insurance products*
  As enunciated in previous submission paper on the establishment of the independent insurance authority, despite the relatively high penetration of insurance products in the Hong Kong market and reasonable growth of premiums over the years, the general understanding of insurance products and how they could be used effectively in one's financial plan remain nebulous. For a market to perform effectively and consumers to be protected properly, IFPHK considers a fundamental understanding of how these products would work is essential. While IFPHK recognizes there are shortcomings of the existing medical insurance industry that the insurers shall partly be responsible, some disputes are attributable to the lack of understanding on the health insurance products and the demand-side moral hazard. IFPHK suggests the Government to launch large scale publicity and education programs to educate the public on the importance of medical insurance products to help save money for future medical costs. The financial planners with their professional knowledge on the products can help the government in such education programs.

- *Raise the awareness of health lifestyle*
  IFPHK strongly believes in the saying "prevention is better than cure". Besides ensuring that people are covered against large medical bills, it is highly important to encourage them to maintain healthy lifestyles. A healthy community benefits both the Government and the insurance industry: for the Government, healthy citizens will lower the total healthcare expense for the Government, and for the insurers, healthier insured lower the risk of the portfolio and make the costs of medical claims more manageable. Therefore, IFPHK urges the Government to increase spending on promoting healthy lifestyles. The private insurers who have direct contact with the consumers can work closely with the Government in this area. This kind of public-private partnership ("PPP") on health education is already seen in Singapore. For example, private insurer like Aviva has a health

education program called MyHealthCounts that allows their policyholders to understand their current state of health under a scoring system called the "Q" score. Subsequently, they can get advice on how to manage or improve their health, and be rewarded through premium discounts for improved health status or simply being healthy. The Singapore Armed Force Health Promotion Board and Aviva are negotiating on the possibility of adoption the "Q" scoring system in Singapore to provide incentives to those who improve their health status through the adoption positive health behaviors[10].

- *Enhance the development of primary care and family doctors*
  Some medical practitioners highlight that the acute problem of Hong Kong is the serious shortage of family doctors in both public and private sectors. The family doctors who have developed ongoing relationships with their patients can act as gatekeepers of secondary healthcare. The strengthening of family doctors through community care can possibly increase the referral of non-acute patients to special outpatient clinics and lessen the overcrowding conditions of public hospital services. As such, the Government should continue to study the enhancement of primary care.

1.2 Do you support regulating health insurance plans under the HPS to provide protection and better choices to consumers?

IFPHK's Response

IFPHK accepts the Government's proposal of setting up a supervisory structure for HPS. However, the structure should aim to avoid duplication of supervision and accumulation of supervisory bodies.

IFPHK concurs with the board principles of developing a supervisory structure for the HPS. IFPHK also agrees that the structure should contain elements of prudential regulations on financial soundness of the insurers, quality assurance of healthcare service providers and monitoring the proper running of the HPS. Apart from the supervisory structure, IFPHK and the industry players who IFPHK interviewed unanimously agree on keeping costs transparent to consumers and the standardization of terms and conditions.

However, industry players who IFPHK interviewed disagreed on the establishment of a new dedicated agency for the HPS. It is felt that such an institutional arrangement is inconsistent with the existing regulatory infrastructure. At present, there are mandatory requirements on purchasing car insurance by vehicle owners and employee compensation insurance by employers. Neither the Transport Department nor the Labour Department supervises these insurance arrangements. In return, the Insurance Authority is responsible for monitoring the car insurance and the employee compensation insurance. As such, IFPHK considers that the establishment of a new dedicated agency for HPS will overlap the functions of the Insurance Authority, and the Government is accumulating supervisory bodies at the cost of the taxpayers. To this end, IFPHK recommends the proposed independent Insurance Authority to be responsible for supervising and monitoring the HPS.

To enhance consumer protection and foster healthy competition among insurers, IFPHK and the industry players support the proposal of making costs of the HPS transparent to consumers. They have no major concerns over the proposed changes as they are currently following similar disclosure requirements by the Office of Insurance Commissioner. In spite of their support on transparency, the insurers oppose any attempt by the Government to control profit margins of the HPS. They argue that with information symmetry, competition will make premium charges more or less the same across the industry and thus there is no pressing need for the Government to control the profit margins of the insurers.

[10] "Hybrid model helps Singapore achieve universal healthcare coverage", a speech by Mar Hawazi Daipi at 2nd Health Insurance Conference

IFPHK acknowledges that there are shortcomings in the existing health insurance practice. It is a popular perception that it is difficult make to claims unless you are in near-death conditions. Still, it is unfair to portray the insurance industry as the main culprits of all these shortcomings. The industry players who IFPHK interviewed all expressed their willingness to collaborate with the Government, the medical services providers and other related stakeholders to standardize terms and conditions for medical insurance policy and make necessary trade-offs for the benefit of the public.

1.3 Do you support increasing private healthcare sector capacity and strengthening quality assurance measures in support of the HPS?

IFPHK's Response

IFPHK strongly agrees with the increase of private healthcare sector capacity under an appropriate regulatory framework and cost containment strategy. It is also agreed that the Government should strengthen the quality assurances and control measures for private healthcare service providers to ensure adequate supply for the HPS.

As aforementioned, the critical success factor of the HPS is in the collaboration of all stakeholders, in particular the private healthcare sector. At present, Hong Kong's healthcare system is overly reliant on public hospital services, which is provided at a highly-subsidized rate at 95%. These services account for about 90% of all in-patient services (in terms of bed-day). The significant imbalance between the public and private healthcare sectors has resulted in limited collaboration between the two sectors and limited choice for patients, especially those who want a choice of hospital services and can afford more than public fees.[11] As mentioned in Question 1.1, the private hospitals are also saturated, and lack of competition is one of the reasons why the private healthcare sector is reluctant to join the HPS. As such, IFPHK supports the Government to increase private healthcare capacity and the healthcare manpower to ensure that there is adequate supply and effective competition. However, the Government has to be cautious that such increases will not undermine the quality of public healthcare.

In addition to increasing private healthcare capacity, the Government also needs to ensure that the private hospitals are committed to provide certain percentage of their capacities to the HPS. Otherwise, those who can pay higher prices will take the hospital beds and patients will be forced to use the public hospitals even though they are insured. The taxpayers' monies to support the increase in private healthcare capacity will end up subsidizing those of higher income.

[11] Jit Soon Lim, HK's shift towards private healthcare

Part 2: HPS Design

2.1 Do you agree with the proposals for allowing high risk groups to access health insurance?

- ***HPS Plan should cover pre-existing medical conditions after 1-year and provide 25%/50% partial reimbursement in 2nd/3rd year, and full reimbursement after 3 years.***
- ***HPS Plan should accept high-risk individuals with premium plus high-risk premium loading not exceeding 300% of the published premium rate applicable.***
- ***HPS Plans should accept those aged 65 or above during the first year of introduction but without being subject to cap on high-risk premium loading.***

IFPHK's Response

IFPHK recognizes the importance of equity on provision of healthcare services but do not support the mandatory acceptance of high-risk group ("HRG") by insurers.

IFPHK has doubts about the mandatory acceptance of HRG by the insurers. The Government is imposing a contradicting principle of requiring the private insurance practice to introduce a **voluntary scheme with mandatory acceptance**. Under the current market practice, the insurers do accept high-risk individuals such as those with pre-existing conditions and aged over 65. They use measures such as waiting period and higher premium loading to control risks. In consideration of the above, the insurers are referring the proposed HRG as those individuals who will be turned away by the insurers under the current underwriting practice. They represent non-insurable risk to the insurers. The immediate concern to the insurers are the robustness of data for analysis, previously the insurers will not accept the HRG and thus it is impossible to estimate the impact of this cohort to the Scheme and the society as a whole.

It is well understood that medical insurance pools the health care risks of a group in order to make the individual costs predictable and manageable. To do this, insurers use underwriting to maintain a predictable and stable level of risk within their risk pools and to set terms of coverage for people of different risks within a risk pool. Therefore, underwriting is the process of determining whether or not to accept an applicant for coverage and determining what the terms of coverage will be, including the premiums. By mandating insurers to accept HRG, the Government is actually altering the normal insurance practice and possibly creating adverse selection as mentioned in Question 1.1. Therefore, the necessary condition for accepting the HRG is an adequate pool for risk sharing and spreading. The Government can help by being the pioneer of the Scheme.

Similarly, IFPHK disagrees with the one-off incentive of accepting those aged 65 or above during the first year of introduction without being subject to a cap on the premium. It is felt that the Government should not provide "false hope" and create a market that is unsustainable.

While the insurance practitioners generally agreed on extending coverage to pre-existing conditions subjected to a waiting period condition, it is arguable that the plan may not be very attractive to patients with chronic diseases. After all, they are only able to claim full compensation in the fourth year after they enroll for the Scheme. Besides, the standard plan does not cover outpatient services, and the primary burden of those with chronic diseases lies in regular medicine expenses. Patients with chronic diseases may prefer to get medicine from public health sector rather than paying insurance premiums. To better utilize public spending on healthcare, IFPHK suggests the Government makes reference to Singapore's example by partnering with the private clinic in setting up a chronic disease management program. The program provides a systematic, evidence-based chronic disease management program to facilitate early detections of chronic diseases[12].

[12] "Is sustainability of healthcare possible without eHealth? – The Singapore experience", Dr Sarah Muttitt, MOH Holdings, Singapore

2.2 Which option to save for future premium do you prefer?

I. Required to save as part of the health insurance policy to pay future premium

II. Given an option to save to a medical savings account that can be used for any purpose; or

III. Allowed to save on their own with incentives provided for payment of premium from age 65.

IFPHK's Response

IFPHK agrees that certain kind of saving options should be introduced to encourage people to stay insured continuously and have the necessary medical funding when they enter into old age. Among the three options suggested in the Consultation Paper, IFPHK prefers Option III as it provides the highest flexibility to the customers.

Concurring with the view of the industry players, IFPHK supports Option III if the HPS is going to be implemented. Option I may not be acceptable to the public since the saving can only be used for pays for future premium, thereby making it inflexible and may lead to possible accusations of Government-Insurer collusion. Option II is similar to the MPF model that may require high administrative costs in maintaining the funds.

Option III provides the highest degree of freedom to the policyholders. The level of premium rebate will correlate with the length of stay. The rebate can be used to pay any medical expenses at the discretion of the policyholders. The administrative cost is expected to be low as the insurers only required to calculate the premium rebate entitlements.

2.3 Do you agree with the proposals to introduce packaged charging for private healthcare services, to require insurers to facilitate migration of existing health insurance, and to establish a government-regulated claims arbitration mechanisms?

IFPHK's Response

IFPHK endorses the enhancement of medical transparency and the establishment of a government regulated claims arbitration mechanisms. However, IFPHK is concerned that the new arbitration body overlaps and duplicates with the existing Insurance Claims Complaints Bureau. If the HPS is successfully implemented, the insurers are agreeable to facilitating the migration of the existing health insurance to HPS but they need more details and time to prepare for the transitional arrangements.

As mentioned in Question 1.1 above, the participation of the private healthcare sector is the key to the success of voluntary HPS. Currently, medical charges in private hospital can be stunningly expensive. The lack of transparency of medical expenses and the varying standards of the private healthcare services providers are partially attributable to the increase in disputes of insurance claims.

Implementation of medical benchmark

IFPHK and the industry players consider it is very important to establish a medical benchmark. However, such a proposal has triggered a lot of debate within the healthcare industry. The spokesperson of the Hong Kong Medical Association has already called into doubt on the willingness of private hospitals to offer treatment packages. Doctors in the private practice claim that treatment packages are only suitable for patients with simple conditions and relatively low-risk complications. Nonetheless, IFPHK feels that there is an imminent need to implement packaged pricing in private healthcare sector. Firstly, there is conflict of

interests for the existing fee-for-payment system where the person who sets the treatment price is also the person who receives benefits from the HPS. Secondly, medical transparency is also beneficial to both the patient and the insurance industry to estimate claim costs. Indeed, some countries in Asia are starting to drift away from the fee-for-payment system. Japan uses "diagnostic-procedure combination" groups for the prospective portion of its payments to hospital. Taiwan has attempted to use a diagnostic related group ("DRG") system for the 50 most common diseases and Korea launched a DRG pilot program in 1997 for inpatient care[13]. In respect of the development of DRG, Hong Kong is behind of the curve and there are no strong reasons for the private healthcare sector to reject the proposed changes.

Establishment of claims arbitration mechanism

According to statistics published by the Insurance Claim Complaint Bureau, complaint cases on insurance claim in 2009 increased by 22% comparing to that of 2008. Among all the complaint cases closed in 2009, complaints related to hospitalization and medical insurance policy represented the largest category of complaints, which is 47% of the total number of cases closed. The main categories of complaints in the hospitalization or medical insurance policy cases closed included excluded items, non-disclosure and amount of indemnity which represented 42%, 42% and 33% of the total number of hospitalization/medical cases respectively. Given the volume of complaints, IFPHK agrees that strengthening the arbitration mechanism will resolve some of the disputes attributable to the misunderstanding of insurance products and non-transparency of prices. However, the consultation paper does not address in detail the arbitration mechanism. As mentioned in Question 1.2, the Government should try to avoid accumulating supervisory bodies. IFPHK urges the Government to revisit the proposal and expand the function of the Insurance Claim Complaint Bureau instead.

Facilitation of HPS migration

As mentioned throughout this submission paper, the insurance industry is willing to collaborate with the Government and the healthcare services providers. They are willing to facilitate the migration to the HPS. However, the Government should work with the insurance industry closely with the transition arrangement. The Government should provide assistance to the insurers in order to ensure that the transition will not be costly and burdensome.

[13] Wagstaff, Adam (2007) "Health Systems in East Asia: What can Developing Countries learn from Japan and the Asia Tigers", 2007

Part 3: Financial Incentives for HPS

3.1 Do you support government injection into the High-Risk Pool where necessary to protect high-risk individuals and avoid premium increase for the healthy under the HPS

IFPHK's Response

IFPHK disagrees with the compulsory acceptance of HRG, which will significantly increase the risk of the voluntary HPS and make it unsustainable. Also, the proposals of using the government funds to subsidize the HRG are regarded by the industry players as lack of substance.

As repeatedly stated in this submission paper, insurance pools together the risks of high health care costs across a large number of people, permitting them to pay a premium based on the average cost of medical care for a group of people. This risk-spreading function helps to make healthcare more affordable for most people. Whilst IFPHK agrees with the principle behind the Government subsidizing those who are in need but cannot afford to pay, IFPHK doubts whether subsidizing through private health insurance is the most effective way in helping this segment of patients.

The High Risk Pooling stipulated in this Consultation Paper is proposed to be a reinsurance mechanism operated by the industry and regulated by the Government. The pooling system is mainly supported by the HPS premium with government injection **if necessary**. IFPHK expresses its dissatisfaction that the consultation document contains very little information about the government injection into the High Risk Pooling. The Government needs to understand that this High Risk Pool represents non-insurable risk to the insurers, which requires more funding than risk pooling. Also, the industry has no data to analyze and estimate the risk and costs associated with the high-risk pool.

We feel that the Government should not create a market that is not sustainable, and committing public funds for a span of 25 years to subsidize people to pay insurance premiums may not be the ideal method to benefit the underprivileged and the needy.

3.2 Do you support that there should be a no-claim premium discount up to 30% of premium for all new subscribers for a limited period after the introduction of the HPS?

IFPHK's Response

IFPHK agrees on no-claim premium discounts but objects the proposal of the "premium discount" as a one-off incentive to boost subscription.

In order to encourage continuity and reward those who stay healthy, IFPHK and the industry players all agree to provide incentives to healthy HPS members. Actually, the use of no claim premium discount ("NCD") is very common within the health insurance industry. However, IFPHK and the industry players disagree with the proposal of a one-off premium discount based on the following two reasons:

Short life one-off discount that creates false expectation
The Government proposes to subsidize the one-off 30 percent premium discount during the first year of operation for those who sign on. After the first year of launch, the NCD is offered at the expense of the insurers and in accordance to the schedule stipulated in the Consultation Paper. The NCD schedule as stipulated in the Consultation Paper is 10% for each year and up to a maximum 30% for three consecutive years without claims. The insurers may offer deeper NCD up to 30%.

IFPHK considers that by mixing one-off premium discounts and the long-term incentives such as NCD together, the Government is offering "false hopes" to subscribers. It will be troublesome to the insurers if

they charge 10% NCD after first year of launch as the policyholders may perceive that the insurance company is raising the premium charges when in fact they are just adhering to the Scheme's requirements.

Referring to the experience of Australia, which introduced private health insurance rebate in 1999, the incentive appeared to be ineffective. The rebate purposed by the Australian government created incentives for people to purchase private health insurance and thereby take the pressure off the public hospital system. The incentive was known as a "carrot". Simultaneously, the Australian government also launched a levy surcharge for avoiding private health insurance. The punishment was known as a "stick". The carrot measures were found to be short term and the Australian Government spent AUD$3.6 billion on rebate. There is considerable debate over whether the rebate has been effective in raising private health insurance membership and even if it did, whether it was an efficient use of money. If the rebate was designed to take pressure off public hospitals, the money could also have been given directly to public hospitals. There is some evidence that the "stick" reforms were more effective in driving up membership compared to the "carrot". Eventually, the Australian government proposed to revise the rebate and surcharge structure in 2009 that removes or reduces the private health insurance rebate for higher incomer earners and increases the tax for high-income earners who do not take up private health insurance. In other words, higher income earners receive less carrot and more stick to be insured[14].

Lack of flexibility on NCD incentives

Currently, the insurance industry has a high degree of flexibility in determining the level of discounts. The insurers usually adjust the NCD according to the overall lose ratio. Mandating a NCD schedule, the insurers will have less flexibility in offering innovative incentives to attract subscribers. Indeed, some private insurers have NCD benchmarked to the health status of an insured. The innovative program not only attracts subscribers but also acts as an effective measure to promote healthy lifestyle. As discussed in Question 1.1, some private health insurers like Aviva have started program that allows their policy holders to understand their current state of health and see how they measure up with others though a scoring system called the Q score. They can get advice on how to manage or improve their health, and gain premium discounts for improved health status or simply for being in good health.[15]

In conclusion, it is an admirable intention to 'sweeten' the HPS proposal by offering a premium discount. However, offering a one-off discount without considering the sustainability of the incentives will be devastating to the Scheme. Thus, rather than subsidizing the insurance services and charges that can be seen by the public as "collusion", IFPHK urges the Government to use the fund effectively on treating the patient. The fund can be used in raising public awareness on healthcare protection and primary care as proposed in Question 1.1.

[14] Kees van Gool, "Health & the economic crisis: the Australian case", Centre for Health, Economic Research and Evaluation (CHERE), University of Technology, Sydney, 2009

[15] Hybrid model helps Singapore achieve universal healthcare coverage, Asia Governance, 8 June 2010

3.3 Do you support that there should be rebate up to a certain percentage of savings used to pay Standard Plan premiums under the HPS on or after age 65?

IFPHK's Response

IFPHK agrees on the use of rebate as an incentive to maintain the continuity principle.

As stated in Question 2.2 above, IFPHK supports a rebate offered to those who stay with the scheme, and the amounts of rebate should correspond with the length of stay. However, the Government should provide more flexibility to consumer on the use of rebate. Instead of paying premiums, the insured can use the rebates for any medical expenses.

Conclusion

The proposals set out in this Consultation Paper are definitely well intentioned. Most importantly, it ends the long stalemate with the Government on healthcare reform. However, since the participation rates of the HPS, the support of the private health care sector and the impact of HRG are all highly uncertain, IFPHK has reservations whether the HPS can achieve the following three principles:

- *To maintain the universal access of high quality healthcare services*
  Without the full support from the private healthcare sector, patients are not guaranteed access to private healthcare services even if they are covered under the HPS. Eventually, the insured has to move back to public healthcare sector and the universal access of high quality healthcare services will be at risk.

- *To ensure the proper use of fiscal reserve on health expenditure*
  This Consultation Paper is based on the earmarked HK$50 billion fiscal reserves that will be used to subsidize the HPS subscription. IFPHK is particularly weary about the misconception of portraying the insurers as the big winner of the HPS. In fact, the use of the fiscal reserves is unclear to the industry and the public, and thus it is unfair to make a conclusion that the insurance industry will benefit from the Scheme. IFPHK recognizes that there are many ways of reducing financial burden; encouraging private insurance is one of the ways but subsidizing patients to purchase private insurance may not be the most cost-effective one.

- *To build a sustainable and affordable healthcare financing system*
  With the mandatory acceptance of HRG without the assurance of a strong risk pool and adequate private health supply, the Government is providing false hopes to the patients. The HPS may have a risk of termination if the patients realized that they are wasting their funds to pay premiums for services that are unavailable.

As repeatedly mentioned in this submission paper, the critical successful factor lies in the full support of the private healthcare service providers. Now, the private healthcare sector is holding a standoff attitude towards the HPS. In this regard, there is a pressing need to revisit the details of the HPS and further elaborate on the merits of the Scheme and its relevance to the ultimate objectives of the healthcare reform.

Healthcare in Hong Kong is widely regarded as one of the best in the world, with a low mortality rate and high life expectancy using only 5% of GDP. Whilst the Government intends to manage public healthcare expenditure by introducing the HPS, IFPHK considers that the Scheme may add administrative costs to the Government and imperil the world-class healthcare system if not carefully designed and properly implemented.