

**IFPHK's Response to the Consultation Document
Issued by the Food and Health Bureau on the Voluntary
Health Insurance Scheme**

April 2015

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IFPHK Profile

Background

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 those financial planners that uphold the highest standards for the benefit of the public.

The IFPHK is the sole licensing body in Hong Kong authorized by Financial Planning Standards Board Limited to grant the much-coveted and internationally-recognized CFP^{CM} Certification and AFPTM Certification to qualified financial planning professionals in Hong Kong and Macau.

It represents more than 6,800 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 more than 147,000 CFP certificants in 25 countries/regions; the majority of these professionals are in the U.S., Canada, China, Australia and Japan, with more than 4,800 CFP certificants in Hong Kong.

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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.

Approximately 28.5% of CFP certificants are from the insurance industry. As the leading professional body serving the financial planning community, the IFPHK is obliged to respond to any policy changes that affect the business of its members and their clients. In 2008, the IFPHK responded to the first-stage healthcare reform 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 2011, the IFPHK responded to the second-stage healthcare reform consultation document "My Health, My Choice". As such, the IFPHK has a track record of expressing our views on changes that have far reaching impacts on the insurance industry, and have an interest in the proposals in this Consultation Document.

IFPHK's representation

The 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
- *Prudential Hong Kong Limited & Prudential General Insurance Hong Kong Limited* (Formerly The Prudential Assurance Company Limited)
- Zurich Life Insurance Company Limited

The IFPHK currently has 47 Corporate Members including banks, independent financial advisors, insurance companies, and securities brokerages. With our Corporate Members providing a full spectrum of the client services and products, the IFPHK is well positioned to understand the needs, concerns and aspirations of the financial planning community.

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

Executive Summary

The Food and Health Bureau (“FHB”) issued the Consultation Document (the “Consultation Paper”) in December 2014 and invited comments from the insurance industry and the public on the long-awaited proposals on the Voluntary Health Insurance Scheme (“VHIS”) set out in the Consultation Paper. The three-month consultation period ended on 16 March 2015.

On the one hand, Hong Kong has world-class public health care services with among the world’s longest life expectancies and lowest mortality rates. On the other, Hong Kong has one of the world’s fastest growing ageing populations. The ageing population not only requires more social and health care resources, but also adds significant pressure to fiscal budgeting because of the shrinking working population. As such, the need to tackle the ageing population is immense.

Whilst the IFPHK recognizes the need of finding a supplementary healthcare financing option and releasing the strain on the existing highly subsidized public healthcare system, we are also concerned about the impacts of the reform on the financial planning and insurance industry.

The healthcare reform has been the subject of strong political debate over the past three decades. In the submission paper on the first-stage healthcare reform consultation document “Your Health, Your Life” in 2008, the IFPHK suggested a mixed model for mandatory and voluntary medical insurance. Despite diverse views on the financing options in the first stage consultation, there was 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 in the second stage consultation document “My Health, My Choice”. Despite the fact that the proposals in the second stage Consultation Paper ended in a long stalemate with the Government, the IFPHK expressed its disappointment that in the submission paper on the second-stage Consultation Paper that the Government did not include a proposal of a mandatory medical insurance scheme. Again, the IFPHK expresses the same disappointment in this Consultation Paper submission.

The proposals set out in this Consultation Paper are definitely well intentioned. However, while they show good intent and are sound on paper, they could be problematic and difficult to implement in practice as the coordination and support from the insurance industry and the private healthcare sector are highly uncertain. As stated in our previous submission, the IFPHK doubted whether it is effective to launch a voluntary scheme based on the design of a mandatory plan. On the participation rates of the VHIS and the support of the private health care sector, the IFPHK has reservations whether the VHIS can achieve the following three principles, mainly, to maintain the universal access of high quality healthcare services, to build a sustainable and affordable healthcare financing system, and to ease the public-private imbalance of healthcare services.

The IFPHK’s submission on this Consultation Paper is based upon several principles which we consider essential to improve the health insurance market and the healthcare system in general:

- ***Enhancing financial literacy and promoting financial education***

While the IFPHK recognizes that there are shortcomings of the existing medical insurance industry, some disputes are attributable to the lack of understanding on the health

insurance products and the demand-side moral hazard. The IFPHK suggests the Government 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 mindset change also 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 alia, his or her own health expenditure and the variety of health insurance products.

- ***Advocating the importance of financial planning on healthcare and retirement planning***

Survey results suggest that most people do not plan for their retirement. As Hong Kong has one of the world's fastest growing ageing populations, it is expected that healthcare products and retirement planning will become more prominent within our society. The IFPHK suggests financial planning education should start early with young adults who are at the age when purchasing health insurance is most valuable and economical.

- ***Raise the awareness of healthy lifestyles***

Prevention is better than cure, and thus it is important to encourage the public to maintain healthy lifestyles. A healthy community benefits both the Government and the insurance industry. The 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.

The IFPHK acknowledges that there are shortcomings in the existing health insurance practice, and thus to a certain extent, it agrees with regulating the health insurance market. Nonetheless, consistent with the IFPHK's previous submissions, there are a number of drawbacks on the VHIS's design. Firstly, it is difficult to gain economies of scale and establish effective risk pooling with a voluntary scheme. Secondly, some of the Minimum Requirements of the Scheme are very severe on the insurers. Thirdly, the support of the private healthcare sector is still questionable.

Industry practitioners worry that a voluntary VHIS 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. A low penetration rate will affect the effective running of such a risk pooling mechanism.

Yet the dark cloud on the horizon is the collaboration with the private healthcare sector. Without any effective measure to control the costs and services of the private healthcare sector, the IFPHK is perturbed by the idea that there may be a supply-side moral hazard where suppliers of health care services give unnecessary services for financial gain.

The enforcement of the 12 Minimum Requirements without any standard package offered by the private healthcare industry may lead to fewer consumer choices, higher health insurance premiums and medical inflation. The existing proposals on the High Risk Group ("HRG") pose lesser risk than the previous proposals but it is also less attractive to those middle-aged people with pre-existing conditions.

The IFPHK has no objection in relation to group medical insurance arrangements and the migration arrangement. While the IFPHK considers tax deductions as an appropriate incentive, it is doubtful that the tax incentive alone is appealing.

The IFPHK has concerns about the establishment of a new dedicated agency solely for the purpose of monitoring the VHIS. We consider 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 insurance practitioners. The IFPHK considers the proposed independent Insurance Authority will play a pivotal role in governing the VHIS.

To improve the proposals, the IFPHK suggests the following:

- The establishment of a medical benchmark to contain medical costs and control the standards of the private healthcare sector. Besides, this 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 VHIS. Otherwise, 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. The 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 encouraging the civil services to participate in the VHIS.
- Rather than promoting private health insurance that can be seen by the public as collusion, the IFPHK urges the Government to use the fund effectively on treating the patient by enhancing primary health care and long-term care financing.

While the 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:

- *A holistic healthcare reform roadmap*
A healthcare financing system includes the process of collecting revenue, pooling, purchasing and delivering¹. 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 with one stone, namely, building a sustainable healthcare system and relieving the pressure on 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

¹ 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.

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.

The FHB Consultation

Healthcare reform has been debated for more than two decades since the Harvard Report published in 1999². 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 (“VHIS” or the “Scheme”) on 6 October 2010. The Consultation Paper is concerned, inter alia, with the proposal of a voluntary, Government regulated VHIS for providing more choices with better protection to those who choose to subscribe to private health insurance and use of private healthcare services. Based on the conclusion of the second stage consultation, a Working Group and a Consultative Group on the VHIS were set up to make recommendations on matters concerning the implementation of the VHIS. With reference to the deliberation by the Working Group and the Consultative Group’s recommendations, the Government hereby put forth the detailed proposals for implementing the VHIS for public consultation in December 2014 (the “Consultation Paper”) and the VHIS was renamed Voluntary Health Insurance Scheme (“VHIS”) to properly reflect its objectives and nature.

The VHIS is intended to regulate individual indemnity hospital insurance. It is proposed that in selling and/or effecting individual Hospital Insurance, an insurer must comply with 12 Minimum Requirements prescribed by the Government. An individual Hospital Insurance that meets all (but not exceeding) the Minimum Requirements is considered a Standard Plan. Upon the implementation of the VHIS, insurers will not be allowed to offer individual Hospital Insurance that does not comply with the Minimum Requirements. The Government considers that the 12 Minimum Requirements for a Standard Plan can improve accessibility and continuity of individual Hospital Insurance, enhance the quality, and promote transparency and certainty of insurance protection.

From the perspectives of health policy and consumer protection, individual Hospital Insurance sold in the name of “hospital”/“health”/“medical” insurance should provide at least the benefits offered by a Standard Plan. Upon implementation of the VHIS, only those health insurance products complying with the Minimum Requirements may be sold in the name of “hospital”/“health”/“medical” insurance, or such other name which denotes or connotes that such product is an individual Hospital Insurance.

The Minimum Requirements of the VHIS would only be confined to individual Hospital Insurance. The VHIS does not intend to cover any fixed pecuniary benefits which may add to an individual Hospital Insurance policy and a group policy.

The Government proposes not to require group Hospital Insurance to comply with the Minimum Requirements. To better protect employees’ interests, the following is otherwise proposed in the Consultation Paper:

² 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.

- Insurers are required to offer conversion option to employers as an elective component. If the employer decides to purchase the group policy together with the Conversion Option, an employee covered by such group policy can exercise the Conversion Option upon leaving employment.
- Insurers may offer, on a group policy basis, Voluntary Supplement(s) to individual members covered by a Group Hospital Insurance policy who wish to procure at their own costs additional protection on top of their group policy. The Voluntary Supplement should provide insurance protection at a level comparable to the protection of an individual Standard Plan.

The Standard Plan will offer enhanced benefits compared to existing individual Hospital Insurance products. For instance, non-surgical cancer treatments and advanced diagnostic imaging tests which are not covered under a lot of existing products will be covered under the Standard Plan. Taking into account these enhanced benefits, the average annual standard premium of a Standard Plan is estimated by the Consultant to be around \$3,600.

Insurers may provide enhanced benefits in the form of a Flexi Plan or Top-up Plan to suit the specific needs of consumers. A Flexi Plan refers to a Hospital Insurance plan with enhancement to any or all of the benefits of a Standard Plan. The enhanced benefits in a Flexi Plan will not be subject to the requirement of guaranteed acceptance with premium loading cap and the cost sharing restriction. A Top-up Plan refers to one providing benefits other than those in the nature of a Hospital Insurance and it will not be subject to the Minimum Requirements.

With regard to the controversial group of high-risk individuals, the Minimum Requirements requires insurers to provide to consumers a Standard Plan with guaranteed acceptance with a premium loading cap of 200%, and coverage of pre-existing conditions. To ensure that high-risk individuals can also buy Hospital Insurance, a High Risk Pool (“HRP”) is established. It is estimated by the Consultant that the total cost to the Government for funding the operation of the HRP for a 25-year period would be about \$4.3 billion.

To provide incentives to purchase the VHIS, it is proposed to introduce tax deductions for premiums paid for all individual Hospital Insurance policies that meet or exceed the Minimum Requirements. A person may claim tax deductions on his/her own policy and/or his/her dependents’ policies; the proposed tax deductions will be provided on a per person insured basis and the claims for tax deductions for dependents’ policies should be capped at no more than three dependents per taxpayer.

To facilitate policyholders of existing individual Hospital Insurance policies to migrate to compliant policies under the VHIS, the Government proposes that, where the expiry of the existing individual Hospital Insurance policies falls within the first year of implementation of the VHIS, insurers are required to, upon such expiry, offer an option to policyholders concerned to migrate to an individual Hospital Insurance policy that meets or exceeds the Minimum Requirements. For policyholders who do not wish to migrate but to renew their policies, the policies will be grandfathered. Grandfathered policies will not be entitled to tax deductions as they are not deemed compliant with the Minimum Requirements.

The Government also proposes to set up a regulatory agency under the Food and Health Bureau (“FHB”) to supervise the implementation and operation of the VHIS. The functions of the regulatory agency will include promulgating, reviewing and enforcing the Minimum Requirements, filing compliant products, monitoring the operation of the HRP, handling complaints from consumers, and investigating cases of non-compliance with the Minimum Requirements. It is also proposed to establish a Claims Dispute Resolution Mechanism (“CDRM”) to provide a credible and independent channel alternative to litigation for resolving claims disputes under the VHIS. The CDRM should cover all financial disputes related to claims arising from individual VHIS policies. The CDRM would take the form of mediation and/or arbitration.

The Consultation Paper contains eight questions in 9 Chapters relating to the proposals of the voluntary health protection scheme on the following areas for the industry or public to provide comments:

Chapter 1 – Healthcare Reform

Chapter 2 – Minimum Requirements

Chapter 3 – Product Design

Chapter 4 – Public Funding

Chapter 5 – Migration Arrangements

Chapter 6 – Institutional Framework

Chapter 7 – Supporting Infrastructure

Chapter 8 – Implications for Hong Kong’s Healthcare System

Chapter 9 – Way Forward

IFPHK's Submission

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 number of persons aged 65 or above will increase to 2.16 million by 2031. 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. At present, healthcare expenditure accounts for 5.1% of GDP. A steady decline in labour force, though, will affect taxation income and GDP growth.

The IFPHK recognizes that there is an urgency to introduce additional healthcare financing options to cope with the future ageing population boom and the associated medical costs. Consistent with the IFPHK's previous two submissions, the IFPHK thinks it is logical for the Government to let the private insurance sector share part of the future medical costs. However, the IFPHK doubts whether it is viable and sustainable to launch a voluntary scheme based on the design of a mandatory scheme but without any commitment on membership base. The uncertainty of the membership and the collaboration of the private healthcare sector would prevent the Voluntary Health Insurance Scheme (the "VHIS" or the "Scheme") from getting strong support of the financial planning industry. Besides, the IFPHK and some of the industry players it interviewed are disappointed that the Government discarded the proposal of a mandatory health insurance scheme under the prevailing social and political landscape. The IFPHK and the industry players are skeptical on the effectiveness of implementing a privately-run voluntary scheme with the expected results of a mandatory scheme.

Since the participation rates of the VHIS and the support of the private health care sector to provide affordable services are highly uncertain, the IFPHK has reservations whether the VHIS can achieve the following three intended outcomes:

- ***To maintain the universal access of high quality healthcare services***
Without the full support from the private healthcare sector on guaranteeing affordable private healthcare services, patients are not guaranteed access to private healthcare services even if they are covered under the VHIS. Eventually, the insured has to move back to the public healthcare sector and the universal access of high quality healthcare services will be at risk.
- ***To build a sustainable and affordable healthcare financing system***
Without the assurance of a solid membership base to build a strong risk pool and the availability of adequate private health supply, the Government is providing false hopes to the patients. The VHIS may have a risk of termination if the patients realize that they are wasting their funds to pay premiums for services that are unavailable.
- ***To ease the public-private imbalance.***
The healthcare system in Hong Kong is highly subsidized and tax dependent. The Hospital authority provides over 90% of inpatient services in Hong Kong. Patients in public hospitals pay a fixed per diem fee of HK\$100, which cover less than 4% of the actual average cost of a patient day in an acute public hospital. There are long waiting times in public hospitals. There are frequent allegations of unreasonably long waits: the waiting

time for non-urgent radiographic services is more than 5 years; for non-urgent orthopedic cases, it is over 2 years; and for a first appointment at psychiatry clinics, it is over 94 weeks. The Government predicts that by 2015, the waiting times for cataract surgery will increase from the current 3 years to 6 years, and for benign prostatic hyperplasia surgery from the current 2-3 years to 4-5 years³.

The Government envisages that the proposed changes would provide a blueprint for tackling challenges such as the costs associated to a “silver tsunami”⁴, the growing burden for public medical expenditure, and the worsening public-private healthcare imbalance. As remarked by the Secretary for Food and Health, Dr. Ko Wing Man, “the VHIS is not a total solution to the problems of our healthcare system, but one of the turning knobs to adjust the balance of the public and private healthcare sectors”⁵. It is expected that about 1.5 million policyholders could be treated at private hospitals. However, under the proposed design and incentive scheme, it is doubtful whether the VHIS is able to attract adequate members to ease the private-public imbalance.

Also, the IFPHK’s submission to this Consultation Paper is based upon several principles which the IFPHK considers essential to improve the health insurance market and the healthcare system in general:

- ***Enhancing financial literacy and promoting financial education***

It is the IFPHK’s view that improved financial literacy levels will not only allow consumers to make more informed investment decisions, but also result in greater consumer appreciation of planning for a long-term financial future – a concept the IFPHK continuously promulgates. Financial literacy also includes financing for one’s healthcare expense and hence it is important to the successful launching of the VHIS. Financial education helps to maintain transparency and confidence in the health insurance and healthcare system, and thereby encourages individuals to take more responsibility towards their own health.

Despite the relatively high penetration of insurance products in the Hong Kong market and the 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, the IFPHK considers a fundamental understanding of how these products would work is essential.

While the 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. The IFPHK suggests that the Government 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 education shall also include

³ Peter Yuen, Financing Health Care and Long-term Care in a Rapidly Ageing Context: Assessing Hong Kong’s Readiness

⁴ 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.

⁵ Press Release, Opening remarks by SFH at press conference on public consultation on the voluntary health insurance scheme and regulation of private healthcare facilities, 15 December 2014.

how to choose health insurance products that fit the purpose. The financial planners with their professional knowledge on the products can help the government in such education programs.

- ***Advocating the importance of financial planning on healthcare and retirement planning***

According to Hong Kong's poverty statistics for 2013, 43.5% of the elderly population (over 65) were living below the Poverty Line. However, most people do not plan for their retirement. As noted from "Investment Education Centre Financial Knowledge and Capability in Hong Kong: A Foundation Study", only 36% of people perform financial planning. It is the IFPHK's mission to increase all external stakeholders' awareness of the importance of financial planning and advice from a financial planning professional. As Hong Kong has one of the world's fastest growing ageing populations, it is expected that healthcare products and retirement planning will become more prominent within our society. The IFPHK suggests education for the need of financial planning should start early. It is most economical to purchase health insurance while one is young and healthy, and thus the IFPHK considers it is critical to educate young adults to properly plan and finance their future healthcare costs. This is also essential to build a healthy community as well as release the financial burden and stress on the healthcare system as a whole.

- ***Raise the awareness of healthy lifestyles***

People from Hong Kong should be proud of themselves in maintaining their health. Hong Kong has one of the world's longest life expectancies (86.6 years for females and 80.9 years for males in 2013) and has one of the world's lowest fertility rates (1.6 per 1000 registered live births). Notwithstanding the good health statistics, the 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, having healthier insured lowers the risk of the portfolio and makes the costs of medical claims more manageable. Therefore, the 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 as the IFPHK already discussed in its last submission paper. For example, private insurer 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 adopting the "Q" scoring system in Singapore to provide incentives to those who improve their health status through adopting positive health behaviors⁶.

⁶ "Hybrid model helps Singapore achieve universal healthcare coverage", a speech by Mar Hawazi Daipi at 2nd Health Insurance Conference

Consultation Questions raised in the Consultation Paper

a) Do you support introducing a regulatory regime for individual Hospital Insurance so that such products must comply with the Minimum Requirements prescribed by the Government?

At present, there is no statutory product requirement for health insurance in Hong Kong. The health insurance market is only subjected to prudential regulation under the Insurance Companies Ordinance (“ICO”). There is a large variety of health-related insurance products in the market, which are sold through various distribution channels. Health insurance products could be offered in the form of individual policies or group policies that are mostly purchased by employers for their employees as staff benefits. The Government perceives that the health insurance market is lightly regulated with varying product standards, thus the proposed VHIS intends to regulate individual indemnity hospital insurance, meaning a contract of insurance falling within Class 2 (sickness) of Part 3 of the First Schedule to the ICO (i.e. ICO (Class 2)) which provides for benefits in the nature of indemnity against risk of loss to the insured attributable to sickness of infirmity that requires hospitalization (Hospital Insurance) and the policyholder/person insured is an individual. The Government proposes that in selling and/or effecting individual Hospital Insurance, an insurer must comply with the Minimum Requirements prescribed by the Government. Upon the implementation of the VHIS, insurers will not be allowed to offer individual Hospital Insurance products that do not comply with the Minimum Requirements. The Minimum Requirements of the VHIS would only be confined to individual Hospital Insurance. The VHIS does not intend to cover any fixed pecuniary benefits (e.g. hospital cash, critical illness cover) and a group policy. An out-patient only policy will not be regulated by the Minimum Requirements.

There was general consensus amongst stakeholders for introducing Minimum Requirements for VHIS products, but there were divergent views on whether the Minimum Requirements should apply to all individual Hospital Insurance products. One of the major concerns was that the requirements might stifle product innovation and reduce consumer choice over products that did not meet the Minimum Requirements.

The Government said that the proposed Minimum Requirements are based on the following rationale:

- To address public concern over the existing Health Insurance Market: There was general consensus among the community on strengthening regulation over the existing Hospital Insurance market and addressing existing shortcomings in market practices, such as decline of cover; exclusion of pre-existing conditions; no guaranteed renewal of policies; lack of budget certainty; or dispute over insurance claims due to lack of standardized policy terms and conditions. The Minimum Requirements are designed to provide simplicity, clarity and certainty to consumers and help consumers who do not possess professional Insurance knowledge to understand easily and clearly the protection they can receive when taking out a Hospital insurance policy. The Government claims that the Minimum Requirement proposal is in line with international experience.

- Enhancing the financing role of Private Health Insurance (“PHI”): By improving the quality and certainty of insurance protection through the Minimum Requirements, PHI can play a bigger role in financing the growing health expenditure.
- Sustainability of compliant products: The Government considers that it would not be practicable to allow co-existence of a regulated market segment where products are bound by Minimum Requirements, and an unregulated market segment where products are not bound by Minimum Requirements. Under such market, the healthier population may be induced to purchase non-compliant products with relatively low premiums, leaving the compliant products a choice mainly for the unhealthy population. As such, the interest of buyers of both non-compliant and compliant products will be impaired, and the sustainability of the VHIS will be threatened.

IFPHK’s Response

The IFPHK acknowledges that there are shortcomings in the existing health insurance practice. According to the statistics of Insurance Claims Complaint Bureau (“ICCB”), hospitalization/medical insurances are top of the list for consumer complaints. In 2013, about 47% of the complaints cases closed were related to hospitalization/medical insurance. The complaints are usually related to the application of policy terms, excluded items and non-disclosure. Indeed, it is a popular perception that it is difficult to make claims unless you are in near-death conditions. As such, the IFPHK agrees on the rationale in tightening regulatory regime for health insurance especially for more transparency and better disclosure.

Still, it is unfair to portray the insurance industry as the main culprit of all these shortcomings. The industry players the 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 policies and make necessary trade-offs for the benefit of the public.

b) Do you have any particular views on the 12 Minimum Requirements proposed for improving the accessibility, continuity, quality and transparency of individual Hospital Insurance?

It is proposed that insurers selling individual Hospital Insurance products must offer a Standard Plan as one of the options to consumers. An individual Hospital Insurance that meets all (but not exceeding) the Minimum Requirements is considered a Standard Plan. Twelve Minimum Requirements are proposed in the Consultation Paper. They aim to improve the accessibility and continuity of individual Hospital Insurance, enhance the quality, and promote transparency and certainty of insurance protection. The 12 Minimum Requirements set out in the Consultation Paper are summarized as follows:

Minimum Requirement	Details of the Requirements
• Guaranteed renewal	<ul style="list-style-type: none"> • Guaranteed renewal for life • No re-underwriting is allowed for policy renewal
• No “lifetime benefit limit”	<ul style="list-style-type: none"> • No “lifetime benefit limit” can be imposed on the policy
• Coverage of pre-existing	<ul style="list-style-type: none"> • Insurers are required to cover pre-existing conditions,

Minimum Requirement	Details of the Requirements
conditions	subject to a standard waiting period and reimbursement arrangement during the waiting period as follows: <ul style="list-style-type: none"> ○ First year – no coverage ○ Second year – 25% reimbursement ○ Third year – 50% reimbursement ○ Fourth year onwards – full coverage
<ul style="list-style-type: none"> • Guaranteed acceptance with premium loading cap 	<ul style="list-style-type: none"> • Guaranteed acceptance for – <ul style="list-style-type: none"> ○ All ages within the first year implementation of the VHIS; and ○ Those aged 40 or below starting from the second year of implementation of the VHIS • Premium loading capped at 200% of standard premium
<ul style="list-style-type: none"> • Portable insurance policy 	<ul style="list-style-type: none"> • Re-underwriting would be waived when changing insurer if no claims made in a certain period of time immediately before transfer of policy.
<ul style="list-style-type: none"> • Coverage of hospitalization and prescribed ambulatory procedures 	<ul style="list-style-type: none"> • Benefit coverage must include medical conditions requiring hospitalization and/or prescribed ambulatory procedures.
<ul style="list-style-type: none"> • Coverage of prescribed advanced diagnostic imaging tests and non-surgical cancer treatments 	<ul style="list-style-type: none"> • Benefit coverage must include prescribed advanced diagnostic imaging tests subject to a fixed 30% co-insurance and non-surgical cancer treatments up to a prescribed limit
<ul style="list-style-type: none"> • Minimum benefit limits 	<ul style="list-style-type: none"> • Benefit limits must meet the prescribed levels
<ul style="list-style-type: none"> • Cost-sharing restrictions 	<ul style="list-style-type: none"> • No deductible and co-insurance, except the 30% co-insurance fixed for prescribed advanced diagnostic imaging tests • Annual cap of \$30,000 on cost-sharing by policyholders (however, if the actual expenses exceed benefit limits, the excess amount is still payable by the policyholder)
<ul style="list-style-type: none"> • Budget certainty 	<ul style="list-style-type: none"> • No-gap/know-gap arrangement • Informed financial consent
<ul style="list-style-type: none"> • Standardized policy terms and conditions 	<ul style="list-style-type: none"> • Minimize claims disputes arising from different interpretations of terms and conditions
<ul style="list-style-type: none"> • Premium transparency 	<ul style="list-style-type: none"> • Transparent age-banded premium structure • Transparent information on premiums through easily accessible platform for consumers' reference

IFPHK's Response

The IFPHK agrees certain requirements like transparency are necessary to improve and enhance health insurance products. However, we have reservations on mandating all health insurance to comply with all minimum requirements based on the following reasons:

1. Deprive consumer rights for a choice
The IFPHK acknowledges the Government's intention to protect consumers but it also deprives consumer rights for a choice. The IFPHK thinks that consumer protection can be achieved by providing better and wider education on health insurance products so that the consumers are equipped with the skills and knowledge to choose the right plan, and make informed decisions.
2. Drive up the premium of health insurance
Insurers have already warned that the proposed requirements will drive up insurance premiums as all illnesses are required to be covered in the standard plan. The cost of policies will be much higher than at present, and the number of people covered could fall and thus create a smaller pool to spread risk. Many critics against the VHIS argue 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 public. The IFPHK feels that this 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 the VHIS has no guarantee on pool size and medical costs, it may actually pose higher risks to the insurers at lower or negative margins. Eventually, the insurers may be forced to drive up premiums to cover the uncertainty.
3. Lead to medical inflation
As discussed in the last submission paper, if there is no policy to control medical inflation and ensure a stable supply for the VHIS, Hong Kong may follow in the footsteps of the "failed American" model, resulting in the availability of quality medical care only to the rich. Indeed, the 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.

Therefore, the IFPHK and 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 IFPHK feels that there is an imminent need to implement packaged pricing in the private healthcare sector. Firstly, there is a 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 VHIS. 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 care⁷. Despite Hong Kong being behind the curve in launching DRG, a treatment package or DRG has not been raised again in this Consultation Paper. Therefore, the IFPHK considers it unfair to the insurers to accept all the regulatory requirements and cover all illnesses without a standard pricing from the supply side.

⁷ Wagstaff, Adam (2007) "Health Systems in East Asia: What can Developing Countries learn from Japan and the Asia Tigers", 2007

Without the full support from the private healthcare sector that they can provide adequate and affordable services, patients are not guaranteed access to private healthcare services even if they are covered under the VHIS. Eventually, the insured has to move back to the public healthcare sector and the universal access of high quality healthcare services will be at risk.

- c) In order to encourage employers to maintain Hospital Insurance cover for their employees, we propose that group Hospital Insurance should not be subject to the Minimum Requirements. Do you agree with this proposal?***

Among the about 2 million persons covered by indemnity hospital insurance, about 0.7 million are covered by employer-provided medical benefits in the form of group Hospital Insurance. The group market is inherently different from the individual market since the cost of purchasing the group policies is borne by employers, rather than employees who are the direct beneficiaries of the insurance cover. Given that purchase of Hospital Insurance is voluntary under the VHIS, it would be important to encourage employers to maintain or take up group Hospital Insurance. If all group Hospital Insurance is required to comply with the Minimum Requirements, some of the employers might drop the cover altogether because they may not be able to afford to pay for the more comprehensive coverage of compliant products. Besides, since the cost of the group cover is borne by employers, who do not benefit directly from the insurance cover, there might be a risk that some of the employers currently offering above-par group coverage might reduce the protection level to that of the perceived “standard level” of the Minimum Requirement. Owing to the above reasons, the Government proposes not to require group Hospital Insurance to comply with the Minimum Requirements.

IFPHK’s Response

At present, about 0.7 million are covered under group medical insurance. As aforementioned, since the requirements of the VHIS may drive up the premium costs of medical insurance, the IFPHK is afraid that employers may stop providing group medical benefits to employees due to an increase in costs and thus further shrink the membership base for medical insurance. The IFPHK agrees to encourage employers to continue to offer group insurance to their employees by excluding group insurance from the proposed regulatory regime.

- d) In order to enhance protection for employees, we propose the arrangements of Conversion Option and Voluntary Supplement(s) for group Hospital Insurance. Do you agree with the proposed arrangements?***

In order to better protect employees’ interests, the Government proposes to adopt the following arrangements for group Hospital Insurance:

- a) Conversion Option
Insurers are required to offer an option to employers an elective component – the Conversion Option – in the group Hospital Insurance products offered to employers. Employers would be allowed to decide whether to purchase the group policy with the Conversion Option component. If the employer decides to purchase the group policy with the Conversion Option, an employee covered by such group policy can exercise the Conversion Option upon retirement or leaving employment so that he/she can switch to an

individual Standard Plan at the same underwriting class without re-underwriting. The Conversion Option would help ensure continuity of Hospital Insurance cover of an employee into old age.

b) Voluntary Supplements

At present, some insurers offer Voluntary Supplement(s) to individual members covered by a group policy. The Government proposes that insurers may, on a group policy basis, continue to offer Voluntary Supplement(s) to individual members covered by a group Hospital Insurance policy who wish to procure at their own costs additional protection on top of their group policy. It is intended that the enhanced group policy should provide insurance protection at a level comparable to the protection of an individual Standard Plan.

Also, to facilitate better understanding of the level protection received by employees from their group policy, it is proposed to require insurers to keep a prescribed checklist of whether the group Hospital Insurance products they offer to each individual employer meet the Minimum Requirements. The insurer would be obliged to divulge such information to employees upon expiry. Since group Hospital Insurance would not be regulated by the Minimum Requirements, and some of which provide benefits lesser than that of an individual Standard Plan. The Government proposes that, for any group Hospital Insurance products to be sold in the name of “hospital”/“health”/“medical” insurance, it must be specified in the product name that such products are group products. In addition, to protect employer’s interests, the Government proposes that insurers should state clearly in the product information provided to employers whether such products are compliant with the Minimum Requirements.

IFPHK’s Response

Like our response in (c), the IFPHK has no objection to the proposals. However, we would like to urge the Government to set an example by encouraging civil servants to join the enhanced options. While the Government is spending dollars on persuading the public to join the VHIS, there is no indication that they will set an example by being the first employer to join the Scheme.

e) Do you support setting up a HRP with Government financial support, which is the key enabler of guaranteed acceptance with premium loading cap?

To meet the community’s aspirations to enable high-risk individuals to purchase Hospital Insurance, the Government proposes to require under the Minimum Requirements that insurers must provide to consumers a Standard Plan with guaranteed acceptance with premium loading cap of 200% of standard premium for (a) all ages within the first year of implementation of the VHIS and those aged 40 or below starting from the second year of implementation of the VHIS. In addition, insurers are also required to provide coverage for pre-existing conditions subject to a standard waiting period. The Government recognizes that insurers might not be able to collect adequate premiums commensurate with the risks taken on for cases which the insurers have to charge a premium loading more than 200% of standard premium. Without proper mitigating measures, insurers may have to assimilate the excessive risks among their policyholders by charging higher standard premiums and thus discouraging potential customers from taking the VHIS and defeat the objective of the VHIS. Hence, the Government proposes to establish a High Risk Pool (“HRP”) with Government funding so that high-risk individuals can also have access to Hospital Insurance. The HRP should be established by legislation with the following framework:

- a) The HRP will be a legal entity, which can enter into contracts, sue and be sued; it will be funded by premium income and Government funding;
- b) It accepts only Standard Plan high-risk policies transferred by an insurer;
- c) The insurer will administer the policy and receive and administration fee payable by the HRP;
- d) In the course of administration, the insurer shall separate a portfolio for the high-risk policies from other policies with a view to ensuring that underwriting of risks of non-high-risk individuals will not be adversely affected;
- e) All premiums payable and claims and liabilities under the policy will be accrued to the HRP;
- f) The HRP may contract out its day-to-day operation to a claims specialist;
- g) The policyholder shall pay the premium with a premium loading at 200% of the standard premium prescribed by the insurer;
- h) The HRP will be monitored by the regulatory agency proposed in the Consultation Paper;
- i) The insurer is expected to transfer a high-risk policy underwritten by it to the HRP upon the policy inception. The HRP will not subsequently accept any high-risk policy not so transferred and the insurer cannot later on request the HRP to accept any high-risk policy for reason of increasing health risk of the insured or otherwise. If it chooses not to transfer it to the HRP at the policy inception, while it may receive the premium payable (subject to the cap), it will have to bear the claims and liabilities of the policy until the expiry or termination without the benefit of the HRP.

It is estimated that the total cost to be borne by the Government for financing the HRP would be about \$4.3 billion (in 2012 constant prices) for a period of 25 years (2016 to 2040). It is also estimated that the membership would be around 69,800 in 2016 (about 3.6% of the total population covered by individual Hospital Insurance). In the long-term, the membership of the HRP is estimated to drop over time to about 10,900 in 2040 (about 0.5% of the total population covered by individual Hospital Insurance).

IFPHK's Response

As enunciated in our last submission, the IFPHK recognizes the importance of equity on provision of healthcare services but does not support the mandatory acceptance of the high-risk group ("HRG") by insurers. 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 selection⁸.

The IFPHK considers that the impacts of the HRG in the revised proposals are less severe. People over 40 years old have only a one-year window to subscribe to the plan and thus the risk of the HRG to the insurers will be smaller than in the last proposal. The earmarked funds for subsidizing the HRG will decrease significantly to HK\$4.3 billion. Notwithstanding our agreement to the revised proposals, we are not sure the VHIS will attract any new members with pre-existing conditions.

⁸ Basically, it is a phenomenon whereby insurance plans attract high risk patients seeking protection, whereas low-risk patients avoid insurance⁸. Much of the insurance practice nowadays is designed to avoid adverse selection.

Hong Kong Medical Association President Louis Shih Tai-cho said the VHIS will be attractive to elderly people suffering from chronic diseases,⁹ but the IFPHK is not as optimistic. Patients with chronic diseases may prefer to get medicine from the public healthcare sector rather than paying insurance premiums which are much more expensive. To better utilize public spending on healthcare, the IFPHK suggests the Government makes reference to Singapore's example by partnering with private clinics 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 diseases¹⁰.

Some academics argue that the healthcare reform focuses on pushing the middle class to the private healthcare sector via private health insurance, but there is no constructive proposal on long term care financing. Long term care refers to a continuum of services to assist an impaired person to function in daily living. It covers both community services and residential services. Community long term care is provided predominantly by non-governmental organizations (NGOs) receiving funding mostly from the Government, supplemented by donations and user fees. As for residential care services, they are delivered by a mix of NGOs and private providers. Some NGOs receive heavy subsidies from the Government. There are also long waiting times for long-term care facilities. Waiting times for a place in subsidized care and attention homes was around 22 months, and for nursing homes 40 months. It has been alleged that around 5,000 elderly persons die every year while waiting for a place in a subsidized nursing home¹¹.

Furthermore, as stipulated in the last submission, some medical practitioners highlight that the acute problem of Hong Kong is the serious shortage of family doctors in both the public and private sectors. 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.

In view of the above, rather than subsidizing the insurance services and charges that can be seen by the public as "collusion", the IFPHK urges the Government to use the funds effectively on treating the patients.

f) Do you support providing tax deduction for premiums paid for individual Hospital Insurance policies owned by taxpayers covering themselves and/or their dependants that comply with the Minimum Requirements (i.e. policies of Standard Plan and Flexi Plans); and premiums paid for Voluntary Supplements purchased by individuals on top of their group Hospital Insurance policies?

In order to achieve the objectives of the VHIS, it is necessary to start off and maintain a scale of subscription in order to operate the VHIS effectively and generate material impact on the healthcare system. There are various options proposed in Second Stage Consultation which included offering tax incentives or premium discounts for new joiners through a no-claim discount, etc. Taking into account the views and suggestions received during and subsequent to the

⁹ Eddie Luk, Tax breaks cited to sell health plan, the Standard, 17 December 2014.

¹⁰ "Is sustainability of healthcare possible without eHealth? – The Singapore experience", Dr Sarah Muttitt, MOH Holdings, Singapore

¹¹ Peter Yuen, Financing Health Care and Long-term Care in a Rapidly Ageing context: Assessing Hong Kong's Readiness

Second Stage consultation, the Government proposed to provide financial incentives or the VHIS in the form of tax deduction for the following reasons:

- From the perspective of the consumer, a tax deduction is simple and easy to understand. Continuous in nature, the tax deduction has the merit of attracting people to stay insured over a long period of time.
- Compared with other forms of financial incentives, such as direct premium subsidy or discount, a tax deduction is less susceptible to abuse. A direct premium subsidy or discount would provide an incentive for some insurers to mark up the premiums of VHIS plans, thus effectively pocketing a significant portion of the premium subsidy or discount.
- A tax deduction is relatively simple and easy to implement as there is already an established mechanism to do so. Unlike a tax deduction, a direct premium discount or subsidy requires a new administration system to deal with reporting, verification, release of subsidy, monitoring and investigation against fraudulence, etc.

Thus, the Government proposes to introduce a tax deduction for premiums paid for (a) individual Hospital Insurance policies that meet or exceed the Minimum Requirements, including policies of Standard Plan and Flexi Plans. Since Top-up Plans are not compliant products, the portion of premiums paid for the Top-up Plans would not be eligible for tax deductions and/or premiums paid for Voluntary Supplements purchased by individuals on top of their group Hospital Insurance policies.

To broaden the scope of beneficiary to tax deduction, the Government proposes that a taxpayer may claim a tax deduction on his/her own policy and his/her dependents' policies; the tax deduction will be provided on a per person insured basis and the claims for tax deductions for dependents' policies should be capped at no more than three dependants per taxpayer. It is also proposed that the tax deduction should not apply to premiums paid for (a) a Hospital Insurance policy that does not meet the Minimum Requirements and (b) a non-Hospital Insurance policy.

The provision of financial incentives is not the only measure that can promote Hospital Insurance uptake or encourage long-term subscription. The Government regards the Minimum Requirements proposed in the Consultation Paper are a kind of regulator incentive that can boost consumer confidence in taking out Hospital Insurance. When implementing the VHIS, the Government will also organize educational and promotional activities to enhance public understanding of the VHIS and to encourage early subscription to VHIS products.

IFPHK's Response

Lawmaker Hon. Chan Kin Por said the tax incentive compared poorly with an idea from the previous government to subsidize a 30 per cent discount on premiums for new buyers¹². The IFPHK has a different view. In our last submission, the IFPHK opposed direct subsidies. The IFPHK considers that by offering one-off premium discounts, the Government is offering "false hopes" to subscribers that the health insurance is affordable. Besides referring to the experience of Australia, which introduced private health insurance rebates in 1999, the incentive appeared to

¹² Hong Kong private health insurance plan 'will help 1.5 million people', South China Morning Post, 15 December 2014

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 IFPHK agrees that tax deductions are a reasonable incentive. However, we also feel that tax deductions alone are not appealing. We are uncertain if the amount is substantial to attract and broaden the membership base of the VHIS. It maybe a good-to-have for those who switch to the VHIS, but it may not be able to attract new members. The Government expects that middle-aged citizens are most likely to buy the VHIS.¹³ The IFPHK would like to reiterate that most of the people from this age group who can afford the premium of the VHIS may have already purchased health insurance. Moreover, people over 40 years old have only a one-year window to subscribe to the plan. The IFPHK is skeptical whether the VHIS is able to achieve the target number of subscriptions.

g) Do you support the arrangements proposed for policy holders of existing individual Hospital Insurance policies who, upon expiry of the existing policies, wish to migrate to VHIS policies (i.e. policies that comply with the Minimum Requirements); and the grandfathering arrangements proposed for existing policies that do not comply with the Minimum Requirements?

The migration arrangements proposed in the Consultation Paper are based on the following principles that:

- Have the effect of encouraging policyholders to migrate their existing policies to a complaint policy;
- Be clear and simple;
- Be fair to both policyholders and insurers

It is proposed that where the expiry of the existing individual Hospital Insurance policies falls within the first year of implementation of the VHIS, insurers are required to, upon such expiry, offer an option to policyholders concerns to migrate to an individual Hospital Insurance policy that meets or exceeds the Minimum Requirements. The one-year period is called “migration window period”. Policyholders will have the option of migrating to compliant policies or renewing their existing policies. Since individual Hospital insurance policies are renewed annually, the Government considers a migration window period of one year appropriate and convenient to both policyholders and insurers.

For policyholders choosing to migrate to compliant policies during the migration window period, they will enjoy a “streamlined migration” for the benefit coverage and benefit limits covered under existing policies:

- Insurers are not allowed to re-underwrite policyholders concerned with regard to the existing benefit coverage and benefit limits, irrespective of the claims history of the policyholders. This means that an insurer cannot apply any case-based exclusions that do

¹³ Eddie Luk, Tax breaks cited to sell health plan, The Standard, 17 December 2014,

not exist in the existing policy to the new policy, and the insurer cannot charge a premium loading over and above that in the existing policy. If a policyholder wants to remove the case-based exclusions in the existing policy when migrating to the new policy, he may be subject to the possibility of being re-underwritten and charged a premium loading.

- For policyholders choosing to remove case-based exclusions in their existing policies, they may be required to serve the standard waiting period for pre-existing conditions. The standard waiting period is proposed to be counted from the date when the existing policy first stated to be in force. Health conditions developed after the commencement date of the existing policy should not be treated as pre-existing conditions for the new policy and should be fully covered by the new policy immediately.

When migrating to compliant policies, some policyholders would need to increase the benefit coverage of benefit limits of their existing policies, in order to meet the Minimum Requirements. These new benefits coverage and higher benefit limits are not covered and have not been underwritten under the existing policy. Thus, it is reasonable to allow re-underwriting of the policyholder by the insurer. The re-underwriting should be restricted to the new benefit coverage and higher benefit limits only.

After the migration window period, a policyholder who has not yet migrated and wishes to be covered by a compliant policy would need to procure a separate policy as a new customer. Policyholders who do not wish to migrate to compliant policies can choose to renew their existing policies on the same old terms or any other terms which fall short of the Minimum Requirements. Such policies will be grandfathered. Under this grandfathering arrangement (a) grandfathered policies will not be entitled to the tax deduction and (b) insurers are allowed to alter the terms and conditions of grandfathered policies as agreed with the policyholders.

IFPHK's Response

The IFPHK has no specific view on the proposed migration arrangements. It is the priority of the Government to lobby with all relevant stakeholders to obtain their buy-in of the proposals.

h) Do you support establishing a regulatory agency under the FHB to supervise the implementation and operation of the VHIS; and a CDRM for resolving claims disputes under the VHIS?

A governing framework is proposed to be in place to oversee the implementation of the VHIS. The governing framework would comprise three components namely:

1. Prudential regulation of insurers
2. Quality assurance of healthcare services
3. Scheme supervision of the VHIS

At present, the role of prudential regulation of insurers is being taken up by the Office of the Commission of Insurance ("OCI"). When the VHIS is in place, the OCI or the independent Insurance Authority ("IIA") will continue to serve this function. Regulation of insurance

intermediaries should continue with existing self-regulatory bodies or the IIA. As for the quality assurance of healthcare services, it is proposed that the existing regulatory institutions of private healthcare facilities and healthcare professionals, namely the Department of Health (“DHI”) and the relevant statutory boards, councils and professional bodies should continue with their work under their respective responsibilities.

As regards scheme supervision, a new dedicated agency is proposed to be set up to perform the functions essential for ensuring a smooth implementation and operation of the VHIS, and to ensure that the policy objectives of the VHIS are achieved. Such proposal is consistent with international practice.

Functions and Powers of the Regulatory Agency

The functions and powers of the regulatory agency are proposed as follows:

- Promulgate, review and enforce the rules and regulations concerning the Minimum Requirements
- File compliant individual Hospital Insurance products
- Maintain records of grandfathered individual Hospital Insurance policies
- Monitor the operation of the High Risk Pool (“HRP”)
- Promulgate, review and enforce codes of practice or guidelines relating to the VHIS
- Ensure the transparency of VHIS products in the market
- Handle non-claims related complaints by consumers, including investigation of cases of non-compliance of rules and regulations
- Refer cases to appropriate regulatory bodies or professional self-regulatory bodies for investigation and handling as necessary and appropriate

To perform the above functions, the regulatory agency should build up market infrastructure to facilitate the implementation of the VHIS; liaise with relevant regulatory or supervisory bodies on matters relating to VHIS; set up a platform for insurers and private healthcare service providers to discuss matters relating to the VHIS and consumer education on the VHIS.

The Government thinks it is more desirable for the regulatory agency to be set up in the form of a Government-led body and as such the regulatory agency is set up as an administrative unit under the FHB. The objectives, power and responsibilities of the regulatory agency would be clearly defined in the form of legislation to provide the regulatory agency with sufficient authority in executing its functions. In the long run, the regulatory agency could take the form of a statutory authority independent from the Government.

The Government proposes to establish an advisory committee comprising stakeholders including members from the insurance industry, private healthcare service providers, relevant regulatory bodies and other stakeholders to provide professional advice to the regulatory agency concerning the operational details for implementing the VHIS. To ensure proper exercise of power by the regulatory agency, the Government proposes that a review committee should be appointed to review the decisions made by the regulatory agency in respect of its regulatory functions.

The Government would liaise closely with existing regulatory bodies on matters related to their respective responsibilities to ensure compatibility with existing and future legislative regime for

regulation of the insurance industry and effective coordination duties. On regulatory issues requiring joint investigation or cooperation between the regulatory agency and other regulatory bodies, the Government will explore possible means for enhancing collaboration among parties concerned, including the desirability and possibility of signing a memorandum of understanding to clarify the respective responsibilities and roles of each of these regulatory bodies.

The Government proposes to establish a Claims Dispute Resolution Mechanism (“CDRM”) for the VHIS to better protect consumer interests. The CDRM should aim to provide an independent, easily accessible, expeditious and affordable channel to resolve financial disputes concerning claims settlement of health insurance as an alternative to litigation. It is proposed that the CDRM should cover claims disputes related to claims arising from individual VHIS policies. The proposal of covering claims disputes of individual policies is consistent with overseas practice. From overseas experience, mediation and arbitration are the two most widely used forms of Alternative Dispute Resolution means. Hence, the Government considers adopting mediation and/or arbitration under the CDRM with reference to local and overseas experience and in consultation with the industry. Given that the CDRM would share some similarities with the existing Financial Dispute Resolution Centre (“FDRC”), and to a lesser extent, the Insurance Claims Complaints Bureau (“ICCB”) in terms of functionality, the Government will explore the room for building the CDRM on the foundation of the existing FDRC/ICCB.

IFPHK’s Response

If successfully implemented, the IFPHK agrees that there should be a supervisory structure for the VHIS. However, as discussed in our last submission, the structure should aim to avoid duplication of supervision and accumulation of supervisory bodies. Industry players the IFPHK interviewed disagreed on the establishment of a new dedicated agency for the VHIS. 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, the IFPHK considers that the establishment of a new dedicated agency for the VHIS will overlap the functions of the Insurance Authority, and the Government is accumulating supervisory bodies at the cost of the taxpayers. To this end, the IFPHK recommends the proposed independent Insurance Authority be responsible for supervising and monitoring the VHIS.

In addition, the IFPHK regards mediation and arbitration as cost effective alternative dispute resolution channels. Given that the existing FDRC has the capacity to accept more cases, the IFPHK proposes that the CDRM of the VHIS be carried out by the FDRC.