



香港女工商及專業人員聯會

HONG KONG WOMEN PROFESSIONALS & ENTREPRENEURS ASSOCIATION LIMITED

Healthcare Planning and Development Office
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Dear Sir/Madam,

“Voluntary Health Insurance Scheme” (“VHIS”) Consultation Response Paper

INTRODUCTION

The Hong Kong Government had conducted many rounds of Healthcare Reform reviews and public consultations since 1990’s:

1993 – “Towards Better Health” (The Rainbow document)

1999 – “Improving Hong Kong’s Health Care System: Why & for Whom?” (The Harford Report)

2000 – “Lifelong Investment in Health”

2008 – “Your Health, Your Life”

2010 – “My Health, My Choice”

Hong Kong Women Professionals & Entrepreneurs Association had submitted our Position Paper both in the 2008 and 2010 public consultations. We are looking forward to a holistic healthcare approach with primary care and hospital care and with preventive and rehabilitation medical for the majority of Hong Kong population. According to OECD, the size of global middle class will increase from 1.8 billion in 2000 to 3.2 billion by 2020 and 4.9 billion by 2030. Almost all of this growth will take place in Asia.

We are disappointed to note that the VHIS consultation is not going to look after the majority of the middle class in Hong Kong.

This consultation paper is only talking about Hospital Insurance and not really Health Insurance (as the name suggested) which should include both inpatient and outpatient medical insurances, primary and hospital healthcare. The limit of benefits under the VHIS is far too low to be acceptable by most of the middle class in Hong Kong. The premium cost suggested in the paper is outdated as it mentions only up to year 2012. After a compound rate of medical inflation since 2012, the projected premium cost will be much more expensive than the average premium of HK\$3,600. The consultation paper projects that assuming the Legislative Council will pass the VHIS in 2016, it will attract about 223,000 people initially and in the long run attracting about half a million of people. The consequence of this VHIS is after the launch of this VHIS, middle class consumers who do not want to buy this VHIS, will have no or limited choices to buy their own medical insurance (with a much higher limit of benefits above the VHIS). By then, all private hospital insurance plans allowed to be sold in the Hong Kong market will have to comply with the minimum requirements with no exclusion on pre-existing illnesses, no deductible higher than HK\$30,000 etc and no subsidizes from the Government on High Risk Pool (“HRP”) outside the Standard Plan of VHIS. Most of the middle class will face the problem of not affording to buy nor able to find their own suitable hospital insurances. Contrary to the objectives of providing health coverage, it will be issues of **UNAFFORDABILITY, UNAVAILABILITY AND UNACCESSIBILITY.**

We have strong reservations on the current proposed Voluntary Health Insurance Scheme (“VHIS”) (which is only confined to hospital insurance) for the following reasons:

1. Insufficient Limit of Benefit in the Standard Plan (VHIS)

The current proposed maximum benefits per surgery for hospital surgery inclusive of doctor’s fee, operating theatre, anaesthetist fee of HK\$58,000 is highly insufficient to cover most of our hospital operations in today’s hospital cost. Although the Government is only targeting a small segment of initially 223,000 people in the VHIS in the first year, it is not clear if our middle class will be benefited by VHIS as currently proposed and will purchase this VHIS. We do hope that the benefit limit is revised to be high enough to cover most of the hospital operations.

2. VHIS is not for holistic healthcare approach

VHIS has not mentioned how the Government is proposing the Preventive Medical and Rehabilitation after discharge from hospital. Preventive Medical, Rehabilitation, community nursing and home care will be part of this Healthcare Reform. VHIS as the name suggested is on health insurance, but it is most misleading when it is only on hospital insurance.

3. The 12 Minimum Requirements

All medical insurance products (not just hospital insurance) selling in Hong Kong should have the best practices by adopting most but not all the proposed minimum requirements. Hong Kong is a free market. As compliance with the requirements will inevitably be linked to cost of the insurance, we prefer more consumer choices and do not believe that all medical products should have all these 12 minimum requirements. In particular, four requirements are not desirable and may have adverse consequences to consumers for the reasons stated below.

- i. **Guaranteed renewal** – Yes, we support this.
- ii. **No “lifetime benefit limit”** - Yes, we support this.
- iii. **Coverage of pre-existing conditions** – No, while the requirement aims to address a critical gap in the current insurance market, we have reservations about the proposal because there are pros and cons. This is only desirable in the compulsory insurance environment and not in voluntary insurance environment.
 - a) We only support it within the Standard Plan, when there is a High Risk Pool (“HRP”) funded by the Government out of the HK\$4.3 billion for any policyholders with pre-existing illness beyond 200% premium loading. However, we also question the sustainability of the HK\$4.3 billion of funding for the HRP in the long run (details will be provided in the later part of this submission).
 - b) We believe that some really high risk conditions should be looked after by the Public Health System instead of the private insurance pool, e.g. rare congenital diseases e.g. metabolic diseases involving experimental drug, HIV, mental disease, and Notifiable Infectious Diseases like plague, SARS.
 - c) The fundamental basic of insurance is the numbering exercise of pooling all the claim cost to be shared by the policyholders within any insuring pool. The HRP funded by the HK\$4.3 billion is only going to subsidize the high risks (over 200% premium loading) out of the Standard Plan or VHIS only. We do not agree that the Flexi Plan on top of the Standard Plan should still cover all pre-existing conditions like what we mentioned in 2.iii.b) above. We do have major concern on this. When most of the middle class are not happy to buy the VHIS or the Standard Plan (due to the insufficient limit of benefits), they will go for their own choice of higher limit of hospital insurance i.e. the Flexi Plan. However due to the minimum requirements imposed by the proposed legal requirement, the premium will be expected to be extremely expensive, because any insurance plans above the limit of the Standard Plan will not be protected by the HRP of the Government. The consequence is it will make the premium cost of private insurance pool too expensive to be shared by private insurance policyholders outside the VHIS. There is a myth that the government proposal should look after the poor and needy, while the middle class have resources to look after themselves. This does not reflect reality, because most middle class people depend on their salaries and will lose the large portion of their income after retirement or when they become sick and cannot continue working. As middle class people do not normally qualify for comprehensive social assistance, they could, under the current proposal, be left out and have to fend for themselves with no support, no money and no health coverage when they fall into hard times. We find that this is very UNFAIR to most of the middle class who are mostly tax payers throughout their working lives. This will become an issue of UNAFFORDABILITY to most of our middle class.

- d) You will note that if an insurance company will load your premium by 30% due to your pre-existing cataract condition, your better option is to exclude your cataract condition (which is normally once in your life time) rather to accept the 30% premium loading which will last for your next 30 to 40 years. Hence exclusion in some scenarios under the Flexi Plan is not a bad choice. But after the implementation of VHIS, there will be no exclusion of pre-existing conditions. What insurance companies can do is either barring the proposer with pre-existing conditions from joining the Flexi Plan or to impose very high premium for policyholders.
 - e) We are concerned that because of the minimum requirements imposed to all private hospital plans, there are not many insurance companies willing to offer competitive hospital plans in the market. Insurance companies are not charitable organizations and they will not subsidize policyholders to cover all the High Risks. Alternatively, some insurance companies may choose to stay away from offering compliant hospital insurances. Hence it will become other issues of **UNAVAILABILITY & UNACCESSIBILITY**.
- iv. **Guaranteed acceptance with premium loading capped at 200% of standard premium for all ages within the first year of the VHIS launch, and those aged 40 or below starting from the second year of implementation of VHIS:** No, we have strong objection.
- a) We agree that under this VHIS standard plan, there should be guaranteed acceptance, but it should not be restrictive to open subscription only for the first year after its implementation. Due to our ageing population in Hong Kong, a lot of people are still under employment after age 60. They are protected by group medical insurance provided by their employers.
 - b) We perceive that population who are enjoying group medical insurance under employ will not take up this low benefit limit VHIS. The cost of VHIS is also not cost effective enough to induce people to buy it.
 - c) In the 2010 Healthcare Consultation, the Government was proposing to allow people up to age 60 to buy this VHIS in the first year with guaranteed acceptance and the standard plan features. At that time, our Association had objected the proposal of taking age 60 as the maximum entrance age due to a lot of working population are still having group medical insurance at this age. We find this totally unacceptable that in this round of Consultation, the Government has now further reduced the maximum entrance age to age 40.
 - d) Under the current proposal, consumers with age over 40 can only join VHIS during the first year when they are not familiar with the VHIS and probably have lots of questions/uncertainties. Should they miss this window opportunity, they will be barred from joining such VHIS. Similarly if they are having any pre-existing conditions, they may be barred from any private insurance plans at all forever, because insurance companies have to accept all pre-existing conditions unless they decline the consumers all together under Flexi Plan. Is this a fair system expected by the people of Hong Kong? What can these people do when

they are denied of any form of private medical insurance cover? For fear of not able to buy high end hospital insurance (Flexi Plan over the Standard Plan of VHIS), we expect that more people with pre-existing conditions (who are not satisfied with the low limit of VHIS) will join a private hospital plan NOW before the implementation of VHIS.

- e) On the other hand, owing to the limited financial means or resistance of the idea of subsidizing the HRP group, the young and healthy population may prefer not to join the VHIS until they have reached the deadline of age 40.
- v. **Portable insurance policy** – This is only talking about insuring persons having the VHIS Standard Plan with no claim for the past 3 years can be transferred and their plans are portable to another insurance company without re-underwriting/ re-assessment. Yes, we support this.
- vi. **Coverage of hospitalization and prescribed ambulatory procedures** – Yes, we support this.
- vii. **Coverage of prescribed advanced diagnostic imaging tests and non-surgical cancer treatments** – Yes, we support this.
- viii. **Minimum benefit limits** – Yes, we support this. But the current prescribed limit of benefits is far below our desirable needs for private hospital procedures for most middle class.
- ix. **Cost-sharing (deductible and /or co-insurance) restrictions** – Yes, we agree only for the VHIS Standard Plan. However, we have strong reservation for the rest of private hospital insurances outside the VHIS. This requirement will not allow hospital insurance plans to apply cost-sharing deductible nor co-insurance (with the exception of the 30% co-insurance for prescribed advanced diagnostic imaging tests).

We do encourage deductible if it is chosen by consumers. Currently in the private insurance market, consumers can opt for a self-chosen deductible for return of premium discount. E.g. some hospital insurance can enjoy over 50% premium discount if consumers opt for an annual deductible of HK\$40,000. We support self-chosen annual deductible rather than co-insurance. The benefit of deductible is not only for consumers' premium discount; it will also reduce the administrative work of small hospital claims to insurers. Hence, we disagree with this restriction under the Flexi Plan.

- x. **Budget Certainty** – Yes, we support the spirit. However, we note that the current proposed documents that the Government will pass the role of hospital budget certainty from doctors to insurers. We are not very positive on the capability of insurance companies to regulate the hospital cost. Perhaps, only a few super major medical insurance companies may have some influence on doctors' surgical fees. We have strong reservation on this requirement if the Government is not going to regulate healthcare service providers including individual doctors to provide diagnosis-related group ("DRG") package fee and codified information for all surgical procedures.

a) In the last consultation document in 2010, the Government was offering diagnosis- related group (“DRG”) based package pricing for common procedures, so that when consumers go to private hospital, there are listed DRG package pricing which will facilitate certainty of hospital charges. We are very disappointed that in this round of consultation, DRG is not considered as part of the VHIS deliverables. If the Government considers that it will take a relative longer time to develop an operative system to track the cost of common procedures, the Government should at least include the tracking of codified information in VHIS. We consider that when the Government deliver VHIS, it should include the reporting by each healthcare service provider on each surgical procedure:

- Disease Code
- Treatment Code
- Drug Code

The movement towards greater standardization of coding and charging is common practice in many developed healthcare systems, including Australia, France, Germany, Ireland, Japan, Netherlands, Switzerland, UK and the USA. Even Singapore and Taiwan have adopted such model, while the Mainland has introduced a voluntary system. We cannot understand why Hong Kong is not able to follow such best practice among the private healthcare service providers? Only if the society is able to track the aggregate data, regulate insurance companies and healthcare service providers (including individual doctors), we cannot have budget certainty.

b) This consultation document requiring insurers to provide the “No-gap/known gap” arrangement with doctors and hospital is in fact passing the regulation of health care services providers to insurance companies.

We support that more transparency for insurance companies and healthcare service providers including private doctors to provide the “Informed Financial Consent” to all consumers. However, the proposed "informed financial consent" involving a quote and a pre-authorisation process under the “no gap//known gap” arrangement does not provide any additional certainty or transparency over the current practice of many insurers. What patients are missing is a clear understanding of what their doctor and hospital might charge in terms of the end to end cost of their medical procedure. In the absence of pricing transparency, medical inflation will become more acute given the short supply of private hospitals and doctors in Hong Kong.

xi. **Standardized policy terms and conditions** - yes, we support this.

xii. **Premium transparency** – Yes, we support this.

4. Existing hospital insurance pools will become “DEAD POOLS” - VHIS will adversely affect the people who are having their private hospital insurances

Any existing insurance plans currently selling in the market will become “DEAD POOLS” on the implementation of VHIS. No new policyholders will be allowed to join. None of the current available hospital insurances are covering all pre-existing conditions; hence they will become non-compliant products and will not be allowed to exist in the market after the launch of VHIS. The existing “dead” pools will be ageing and will only have more and more claims within these pools without healthy new blood joining.

The Government is going to penalize good citizens who have planned their own private medical insurance long time ago before the establishment of this VHIS. It is expected that the future renewal insurance premium will be too expensive to be affordable.

5. “Pool” or “Community” Rating

We propose adding “pool” or “community” rating in the minimum requirements for individual medical insurance. Under the concept of “pool” or “community” rating, renewal premium for each individual will be based on individual’s age or age bands (except with individually agreed additional premium loading due to pre-existing illness covered under the insurance plan). Without “pool’ or “community” rating, individual can be heavily penalized with sharp hike of renewal premium immediately after any major claim payment. Without “pool” or “community” rating, insurance companies can price out any individual when this individual’s health situation is deteriorating, although it is still under guaranteed renewal. We would advocate level premium for all individuals under the same age (except premium loading for covering any pre-existing illness).

6. Group Medical Insurance

We do not agree the VHIS to include group medical insurance. In fact, group medical insurance is not by law a mandatory requirement. This will force some organizations to withdraw from providing free group medical insurance to employees. It will end up more employees to be uncovered or they will be out of their own pocket to buy private medical insurance.

7. Conversion Option under Group Medical Insurance

We support conversion option. But again it is not desirable to force insurance companies to comply with all 12 minimum requirements. As we explained in the previous paragraphs, this will eventually adversely affect consumers’ best interests.

8. HRP

- i. We believe that some of the very expensive High Risks group like what we mentioned in 2.iii.b) above should be looked after by the Public Health System rather than private insurance.
- ii. From the consumers' perspective, without proper guidelines on the definition of high risk, it will be difficult for them to accept a 200% loading. However, these groups of consumers might actually be able to get a cover in the current private medical insurance scheme with exclusions

at more affordable premium levels. If an individual “A” is currently over age 70 and with many pre-existing illnesses, to pay an annual premium of over HK\$30,000 (after 200% loading) will be too expensive for him to afford and yet the maximum benefits (up to HK\$58,000 per surgical procedure) is not sufficient.

- iii. The VHIS may attract those with severe impairment and willing to pay the loading for the VHIS cover. However, the sustainability of the HRP will be exceedingly doubtful because HRP by definition will incur more claim costs than the premium it receives.
- iv. Insurance companies will welcome this HRP set up, because they will pass on the High Risk policyholders to the HRP at policy inception without worrying about the claim cost in the long run. Hence, we are gravely concerned about the assumptions made in the proposal, i.e. the estimated cost to run the HRP would be HK\$4.3 billion. What will happen when this HK\$4.3 billion exhausts? Will the Government commit to inject more public funding to ensure its sustainability? If yes, tax payers are footing the bill at the end of the day. If no, what will happen to those who have joined the HRP?

9. Tax incentive

The current proposal of HK\$450 per person per annum is not an incentive at all to induce people to join VHIS. We propose that the tax relief amount is equivalent to the premium paid per annum up to say HK\$20,000. All hospital insurance plans are eligible for such tax relief. This will induce our population to go for their own private insurance instead of going for the Public Health System.

10. Migration of existing individual hospital insurance

This is a free market in Hong Kong. We do not support to isolate all existing insurance plans by grandfathering them. They will become “dead pools”. These segments of policyholders will face problem of acute renewal premium and will have issue of “UNAFFORDABILITY”.

To maintain consumer choice, existing products should be allowed to continue selling in the market alongside with VHIS.

11. Regulatory agency

We do not support setting up another regulatory regime to regulate individual medical insurances when there is already an Insurance Authority or IIA in future. The Government can just pass on such responsibility to the Insurance Authority and where necessary expand its functions, resources and capability to cover the new regulatory requirements brought about by VHIS, but save the huge administrative cost and bureaucracy of having two separate agencies governing the insurance providers. Unless we are in the compulsory medical insurance environment, such regulatory regime is unnecessary. Since the prudential regulation always remains with the Insurance Authority, this medical regulator may perform improper decisions without knowing all the financials and business conduct of any medical insurance companies.

At the end of day, when this medical regulatory agency becomes another statutory body, we do not want to foot the bill of running this medical regulatory agency by tax payers’ money or by the industry, in which case the cost will only be passed on to consumers.

12. Claims Dispute Resolution Mechanism

We do not support setting up another Claims Dispute Resolution Mechanism (“CDRM”). The consultation document proposes to set up such CDRM and to resolve medical disputes through mediation or arbitration. Currently, the market has in place very good dispute resolution system under the Insurance Claims Complaints Bureau (“ICCB”). Any individual claim under the amount of HK\$800,000 is adjudicated by the councilors of the ICCB and the decision of the ICCB is binding to all insurer members of such Bureau. Individuals do not require spending extra legal fee to seek mediation nor arbitration.

13. Lack of consumer choice in the VHIS environment

- a) It is of paramount importance that customers should have enough choices. Currently, policyholders take out different form of private health insurance plans to suit their needs. For instance, (i) some may choose a lower benefit level according to their affordability; (ii) some may take out such plans as the top up of the group medical plans provided by their employers; (iii) some may have bought a coverage decades ago which are no longer sufficient to cover the medical bill so they choose to get an additional cover. (iv) some may have taken very high end insurance limit with fully reimbursed medical plan.
- b) The lack of choice is even more obvious for the unhealthy individuals. Under the VHIS, they will have no option but to join the High Risk Pool (HRP) and pay 3 times premium or remain in the Public Health System. Whereas in the current situation, they can choose to buy a policy without loading but an exclusion of particular illness for which they could seek treatment in the public system. They can go to private hospital for majority of the illnesses and the cost is covered by insurance except for those conditions being excluded. We urge the Government to explore whether it could address the issue of mandating the acceptance of pre-conditions to a certain extent, without sacrificing consumer choice.
- c) Given the fundamental weaknesses of the VHIS, we strongly believe that a range of private health insurance products should be allowed in the market along side with VHIS. Hong Kong people should have free choice to choose their own affordable insurance plans by their own money. Otherwise, with the current proposal when the VHIS is launched, the majority of Hong Kong population will prefer to go for the Public Health System instead of going for private medical insurances.

14. The Success of VHIS

- i. The success of VHIS depends very much on the transparency of aggregate big data from both insurance companies and healthcare service providers (including individual doctors) on claims and premiums by insurance companies and fees charged by doctors and hospitals. Withholding the implementation of Diagnostic-related Groups (DRG)/Packaged Price specific to VHIS would go against the objective of empowering consumers to make an informed choice and keeping provision of healthcare more affordable.
- ii. Medical insurers should continue to improving their existing products and market best practices by standardizing policy terms, applying less exclusion, expanding the coverage to inpatient

- and/or ambulatory care, refining policy terms, extending cover to rehabilitation, enhancing transparency of premium rate and the claims process in line with consumer expectation
- iii. The Government should not stifle the healthy development of medical insurance products by imposing unreasonable and unnecessary minimum requirements. The Government should encourage free competition among medical insurers to continuously improve and expand product offerings to meet the changing needs and affordability of consumers.
 - iv. The current supply (about 3,700) of private hospital beds is very inadequate. Although we heard that there will be more private beds to be supplied in the future, we believe the Government should make sure that there are in place sufficient private hospital beds to meet the surging market demand when the VHIS is implemented.

Our Association is of the view that we do not support the currently proposed VHIS in the consultation document. We invite the Government to revise VHIS as we proposed above. In the absence of the critical features proposed herewith, we expect that majority of the middle class Hong Kong people will be forced to stay away from private insurance due to the issues of **UNAFFORDABILITY, UNAVAILABILITY & UNACCESSIBILITY** mentioned above. In this situation, Public Health System will become our only preferred choice, thereby adding further burden on the Public Health System. The original intention of setting up this VHIS to divert some people to Private Healthcare Services and so releasing resources from Public Health System will be defeated by some major issues in this Consultation Proposal.

13 March 2015