

15 April 2015

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Dear 

Consultation on Voluntary Health Insurance Scheme

We are pleased to submit our comments to the consultation exercise on a proposed Voluntary Health Insurance Scheme (VHIS).

The Chamber has long advocated reform of the cost of public services, and supports finding new means of achieving society's needs at an affordable and sustainable cost. As noted in the consultation document on VHIS, it will become increasingly challenging to maintain a sustainable, affordable and quality healthcare system in Hong Kong as our population ages. As such, there is an urgency to implement health care financing reforms although the very nature of the subject matter itself does not lend itself to widespread support.

We appreciate the inherent difficulties associated with introducing reforms and are hopeful that the latest proposal, which represents a milder reform option will create room for discussion, achieve consensus and pave the way for further policy solutions in future.

Yours sincerely


Shirley Yuen
CEO

Encl.

HKGCC Comments on A Voluntary Health Insurance Scheme

Introduction and statement of the HKGCC's position

1. The HKGCC welcomes the opportunity to comment on the Government's proposals on introducing a Voluntary Health Insurance Scheme (VHIS) in Hong Kong as a potential measure to rebalance demand between the private and public healthcare sectors.

2. The healthcare landscape has remained largely the same as 2010 and 2008 when the last two-stage consultation on healthcare reform was conducted. Likewise, the Chamber's continues to maintain the need for government attention to the supply side of healthcare provision to ensure better control over costs. As suggested in our response to the 2010 Second Stage Consultation on Healthcare Reform, we continue to feel that there is the potential for cost savings without any compromises to the standard of care by such means as **opening the "closed shop" medical profession** to qualified practitioners from abroad and a broader **implementation of a community clinic-based approach** that is more cost-effective than hospital-based care. Other than to alleviate case-loads at public hospitals by absorbing some of the out-patient demand, the former could also be utilised as a platform to promote community awareness on and the practice of preventive medicine. In our opinion, **preventive healthcare should be an integral aspect of an over-arching policy for healthcare reform** as this pays significant economic dividends in the form of a healthy and productive workforce, and lower overall healthcare costs.

3. The issue of controlling costs is of paramount importance especially in the context of the March 2014 report released by the Working Group on Long-Term Fiscal Planning, which advocated financial prudence in the face of such challenges as a narrow tax base, volatile government revenue, and contingent liabilities associated with an aging population. The openness of our economy and its susceptibility to external shocks also has a direct bearing on our ability to fund future expenditure. As such, it has to be impressed on the public that the engineering maxim "Fast, Good or Cheap – pick two" is equally valid in the case of healthcare delivery. From our point of view, we believe the 'cheap' option, which refers to cost, represents a more workable proposition as a policy lever for the government to exert control over demand. As pointed out in our earlier submission, we strongly believe that **user fees should be increased for those able to pay as part of a cost-control and service rationing solution.**

Comments on VHIS

4. We note that VHIS intends to achieve the goal of redirecting some of the demand away from public facilities by offering enhanced benefits particularly in the areas of diagnostic consultations and ambulatory treatments so as to encourage consumers to increase their reliance on the private system for that aspect of healthcare. We also note the proposal to incentivise uptake by providing guaranteed coverage (including chronic and pre-existing conditions), a premium loading cap and automatic renewal, although these will only be made available

generally during the first year of VHIS implementation and then limited thereafter to those aged 40 or younger. Additionally, tax breaks will be provided for purchasers of Standard Plan under VHIS to stimulate demand.

5. We agree with the notion that a homogenised product with standardised terms and benefits as proposed under the Standard Plan to be useful in facilitating consumer decision-making by addressing the issue of information asymmetry that presently exists in the market. We believe that this feature is important in addressing insurers' efforts to avoid adverse selection (people concealing information about their risk of ill health), which can lead to risk selection and market segmentation. As a result, some individuals will not be able to obtain any insurance or at a price they are willing to pay. It also represents one of the more appealing features of the proposed VHIS as far as the individual consumer is concerned.
6. We are pleased to note that the Government is also looking into a regulatory review of private healthcare facilities, an exercise that is aimed at promoting transparency by enabling access to information on fees and charges, and ensuring high standards of healthcare are met for ambulatory facilities providing high-risk medical procedures. These are important factors that would help foster consumer confidence, which would in turn lead to increased patronage thereby redirecting demand away from the public sector.
7. While we are generally positive of the proposals as laid out in the consultation document, there are however questions about the effectiveness of the proposed scheme especially beyond the first year of implementation. Specifically, the one-year moratorium on open enrolment (guarantee access to coverage) comes across as being half-hearted and tentative. As pointed out by the Consultants, a probable outcome is a migration/enrolment of high-risk/pre-existing cases to secure the advantages of lifetime cover and premium loading cap within the window of time available. As far as the recruitment of the young and the healthy is concerned, there appears to be little attention paid to this market segment. That said, we note that the fundamental objective of the proposed VHIS is to wean individuals with existing private health insurance (PHI) off the public healthcare system in favour of private services. It hopes to achieve this by enhancing the provision of benefits for ambulatory procedures and diagnostic tests as noted earlier in this paper. Although there is the effort to encourage subscription by providing a tax break for the purchase of VHIS plans, the average tax benefit of HK\$450 per eligible individual may not be attractive enough to induce uptake. This is particularly so when the indicative average premium is HK\$3,600 or 9% higher than the market average. As such, and given the need to consider the affordability of VHIS plans to the younger demographic, as well as the inability of retirees to benefit from the proposed tax deduction, **we do not share the Consultant's optimism of new business on VHIS roll-out** despite the virtues of guaranteed acceptance and lifetime coverage.
8. We are also concerned about the possibility of demand-side moral hazard arising from double coverage i.e. (by universal healthcare and VHIS). This could lead to a higher than necessary consumption of healthcare as those with voluntary insurance would have the option of accessing the public service for, say, second opinions. As

such, we would suggest that some form of gate-keeping be introduced to ensure that equity and efficiency in the delivery of healthcare is not compromised.

9. Our support to a Standard Plan notwithstanding, we feel that the **freedom of choice should continue to be maintained** as had been pointed out in the consultation document although this refers to the decision between public-private care. As suggested by Chamber members from the insurance industry, consideration should be given to allowing plans offered under VHIS to compete with existing or new insurance products. We are concerned that by limiting insurance products to those as defined under VHIS this would inhibit competition and stifle insurers' ability to innovate and compete in providing better policies at lower costs to consumers.
10. We are also concerned about the **consequences to the private healthcare system and Hong Kong's competitiveness for talent should there be major shift in demand from the public sector leading to private sector shortages** for tests and procedures. In seeking to free up the capacity of private hospital beds by regulating a free market of services, there is the distinct risk of precipitating an imbalance between limited supply – 11 private hospitals with about 3,900 beds – and overwhelming demand, which relies on a major shift from inpatient procedures for colonoscopy and endoscopy, which accounts for 40% of claims, to out-patient (based on a benchmarking with Australia as given the consultation document). The private sector's capacity to cope with the diverted public sector demand will be significantly lower if the predicted shift of these inpatient procedures does not occur, running the risk of overloading the private hospitals. Business may then be faced with a similar shortage of international friendly (language, standard) medical facilities as the shortage of international school places that would harm Hong Kong's competitiveness for talent, at a time when pollution (with its medical complications) is already a notable negative.
11. While we note that there are plans to facilitate private hospital development and increase healthcare manpower, which are all important components to the successful implementation of VHIS, unforeseen delays could give rise to issues of quality and accessibility for the reasons of supply and demand as noted in the paragraph above. As occupancy levels in private healthcare institutions are already quite high, it may also be **necessary to significantly increase the number of private hospital beds and operating theatres over and above those in the supply pipeline** made available through the new Glenaeagles Hospital in Wong Chuk Hang and the CUHK Hospital in Shatin. These additional facilities can reach saturation very quickly should VHIS be successful in attracting a reasonable number of insured persons.

Conclusion

12. The Chamber appreciates the effort by Government to take concrete action in rebalancing demand between publicly and privately provided healthcare services through the proposed VHIS, as well as concomitant measures to revamp regulatory oversight of private healthcare facilities for the purpose of promoting public confidence through price transparency and service enhancements.

13. The Chamber continues to maintain that a mandatory approach to be more appropriate as this would be more effective in resolving the issues of risk pooling while ensuring universal coverage. As was pointed out in our previous comments to the 2010 consultation exercise, we recognise that a voluntary scheme may be a necessary first step although this needs to be reviewed within a reasonable period of time on such metrics as reduced load at public hospitals, stable premiums and reasonable coverage, equity in addressing demands, and so on. In the event that the VHIS fails to fulfil the intended objective of rebalancing healthcare demand between the private and public sectors, we urge the Government to give serious consideration to the implementation of a mandatory scheme instead.

HKGCC Secretariat
15 April 2015

Response to Questions raised in the VHIS Consultation Document

- (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?

We understand the need for standard terms and coverage so that there is less confusion for consumers in procuring an appropriate policy that suits their needs. At the same time, we also feel that other products should be offered as well to ensure choice is available. This would have the advantage of incentivising private insurers to compete rather than to revert to risk segmentation upon expiry of guaranteed coverage one year after VHIS implementation or by shifting risk to the public healthcare sector.

- (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?

We do not have any comments on the proposed criteria.

- (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?

We agree that for the purpose of the current exercise, group insurance plans provided by employers should not be considered as part of the proposed Requirements.

- (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?

We agree that the proposed arrangements of Conversion Option and Voluntary Supplement(s) are useful in encouraging employees to seek additional insurance cover for themselves. These would also be conducive in promoting the desired outcome with respect to redirecting demand away from the public system in favour of private healthcare. However, we feel that more could be done to help the public better understand the distinctions and potential dynamics between VHIS and group coverage. We would also recommend clarifying to employers that other than the discretion to take up the proposed Conversion Option, group plans do not fall under the remit of the VHIS.

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

As the proposed HRP would be fundamental to the VHIS' initial ability to accept individuals with above average risk at a reasonable premium, we support its establishment with funding provided by Government. That said, the HRP will be one of the main drains on public finances over the decades to come. As such, it is one of the most compelling reasons for ensuring that Hong Kong's overall fiscal standing remains stable. Linking the need to broaden the tax base with specific benefits such as healthcare may be an appropriate means of broadening support for what will clearly be politically unpopular decisions.

- (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?

A key measurement of VHIS success is its ability to recruit members and the provision of tax concession would be useful as an enticement to take out a policy that is consistent with the Minimum Requirements. This would not however be enough in itself to appeal to the more desirable market segment of the young and healthy. Furthermore, retirees would be excluded from the benefit. We suggest instead that conscious efforts be made to ensure that premiums are rendered more affordable to a broader cross-section of society.

- (g) Do you support the arrangements proposed for policyholders 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?

We do not have any views on the proposed handling of expiring individual policies by offering individuals a choice between compliant and non-compliant policies based on the arrangements as outlined in the consultation document. However, we would hope that insurers are sufficiently prepared to cope with the transition to VHIS in the event of voluminous demand.

- (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?

The Chamber has always advocated the virtues of small government in which case we question whether a separate entity is required on a permanent basis to oversee the VHIS. We also wonder whether the proposed CDRM, which we support, should be housed within Government and instead be delegated to an independent institution with the requisite qualifications such as the Hong Kong International Arbitration Centre.