Proposal on Voluntary Health Insurance Scheme in Hong Kong

Regulatory Update

13 JAN 2015
By: Lydia Wong

Background

Since 2008, the Hong Kong government has conducted two public consultations on healthcare service reforms and possible supplementary healthcare financing options. On 15 December 2014, the Hong Kong government initiated a three-month public consultation to consult the public on implementing a government-regulated, market-operated Voluntary Health Insurance Scheme (VHIS). The VHIS is a supplementary financing scheme aimed to achieve a right balance between public-private healthcare sectors.

Aims of the VHIS

The VHIS aims to facilitate greater use of private health services as an alternative to public healthcare so as to relieve pressure on the public healthcare system. Members of the public who are willing and able to afford private healthcare may purchase health insurance products under the VHIS. In terms of addressing the inadequacies of existing private health insurance sector, VHIS aims to improve the transparency and price levels in the healthcare insurance market through the offering of packaged charging for common medical procedures. It also aims to enhance consumer protection and confidence as well as to assure quality of private healthcare services in the market.

Individual hospital insurance under the VHIS

The individual indemnity hospital insurance products (the "Standard Plan") to be offered under the VHIS must meet twelve mandatory minimum requirements (the "Minimum Requirements"). They are designed to provide the insured individuals with benefit coverage and reimbursement levels that would enable them to access general ward class of private healthcare services when needed, as well as enhancing the quality and transparency of hospital insurance. The Minimum Requirements would only be confined to indemnity hospital insurance products, which are designed to cover the actual hospital charges and related medical expenses incurred by a patient. It is proposed that insurers offering indemnity hospital insurance products must make Standard Plan available as one of the options to consumers.

Besides, VHIS also ensures the insurer retains freedom to structure their own health insurance plans by offering top-up benefits ("Flexi Plan" and "Top-up Plan"). Flexi Plan is a single product that combines the Minimum Requirements with the enhanced benefits (e.g. higher benefit limits, higher ward class). On the other hand, a Top-up Plan provides benefits other than in the nature of indemnity hospital insurance plan and may be attached as a rider.
The Government also proposes to set up a High Risk Pool (HRP) to ensure high-risk individuals (i.e. their applications are rejected by insurers, or accepted with additional clauses imposed, or charged a premium loading at a rate deemed appropriate by insurers) can purchase hospital insurance that meet the Minimum Requirements. The HRP will be supported by public funding and the Government estimated the total cost for funding the operation of the HRP for a 25-year period (2016 to 2040) would be approximately $4.3 billion.

Since VHIS is a voluntary scheme, it is target to individuals who can afford and willing to pay for value-for-money private healthcare services. Individuals with existing health insurance can choose whether to migrate to health plans under VHIS accompanied with costs. Participating insurers will be required to offer their existing individual health insurance policy holders an option to transfer to VHIS without subject to re-underwriting within one year after the introduction of VHIS.

**Group hospital insurance under the VHIS**

Group hospital insurance is not required to comply with the Minimum Requirements under the VHIS as the cost of purchasing the group policies is borne by employers who might be subject to budget constraints. Therefore, in order to better protect employees' interests, it has been proposed to require insurers to include a conversion option ("Conversion Option") in the group hospital insurance products. 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 and switch to an individual Standard Plan at the same underwriting class without re-underwriting, provided that he/she has been employed for a full year immediately before transferring to the individual Standard Plan. In addition, insurers may also offer a voluntary supplement to individual members covered by the group policy to procure at their own costs additional protection on top of their group policy. The group policy, enhanced by the voluntary supplement should provide insurance protection at a level comparable to a Standard Plan.

**Implementation of the VHIS**

After consolidating and analysing the views received from this public consultation, the Government would proceed to implement the VHIS through enacting a new legislation and the bill and subsidiary legislations required for the VHIS is expected to be introduced in 2015/16.