



The Government of HKSAR Food and Health Bureau

Consultancy study on the implementation details of
complying requirements in product design under the
Voluntary Health Insurance Scheme

Executive Summary



31 October 2018

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1. Executive Summary

1.1 Background

Deloitte Advisory (Hong Kong) Limited (“Deloitte”/“We”) was engaged by the Food and Health Bureau (“FHB”) of the Government of the Hong Kong Special Administrative Region (“Government”) in April 2017 to undertake a consultancy study on the implementation of the Voluntary Health Insurance Scheme (“VHIS”).

The VHIS aims at providing a regulatory framework in enhancing the accessibility, continuity, quality and transparency of individual Indemnity Hospital Insurance Products (“IHIP”) with a view to encouraging more people to make use of private inpatient services and ambulatory procedures, thereby alleviating pressure on the public healthcare system and enhancing the long-term sustainability of Hong Kong’s healthcare system as a whole.

The public consultation exercise conducted between 15th December 2014 and 16th April 2015 revealed a broad support to the VHIS from the general public and culminated in a consultation report released in January 2017 by the FHB, which suggested the establishment of a VHIS Office under FHB in order to set out the operational and technical details for implementing the VHIS.

To take forward the VHIS into implementation, Deloitte was engaged by FHB to conduct consultancy study on the details of product design for the VHIS, which includes:

- Part I Develop and recommend a set of Standard Policy Terms and Conditions
- Part II Develop and recommend a set of Product Compliance Rules to define Flexi Plans and Add-on Protection
- Part III Develop and recommend a set of standard contract clauses for Individual and Group Conversion Options

This report covers all three parts of the studies. For Part I, the Standard Policy Terms and Conditions (“STC”), the Standard Benefit Schedule (“SBS”) and the Schedule of Surgical Operations (“SSO”) form a Certified Plan Policy Template collectively. The details of the SBS and the SSO are explained in another consultancy report entitled “Consultancy study on the benefit limits of Standard Plan under the Voluntary Health Insurance Scheme with premium and impact assessment”.

1.2 Standard Policy Terms and Conditions (Part I)

STC is one of the VHIS minimum requirements aiming at promoting the transparency and certainty of the insurance coverage for the IHIP under the VHIS. This report would recommend a set of STC and sets out the considerations in developing the STC.

The Minimum Requirements of the VHIS have gone through extensive public consultation. To follow up with the suggestions made in the VHIS Consultation Report, Deloitte was

commissioned to conduct a consultancy study on the recommendation of a set of the STC for the implementation of the VHIS. For the purpose of this study, we have engaged different stakeholders through various channels to collect their ideas and opinions in the drafting of STC. In the process, we have participated in meetings of the Consultative Group on VHIS¹, conducted interviews with the representatives of various institutions and organised workshops with the insurers. We have taken into account the perspectives and views from different stakeholders, including the insurers, intermediaries, medical professionals and consumer advocates. In our recommendation, we target to balance the considerations of consumer protection, premium affordability and commercial viability of the products under the scheme.

We have reviewed and analysed the terms and conditions of IHIP in the market. In the process, variations in market practice have been taken into account for developing the best practice to be adopted under the STC.

Views are gathered from relevant stakeholders with specific areas of interest through 21 interviews. Meetings are held with representatives from insurers, reinsurers, insurance intermediaries, healthcare institutions, medical practitioners, consumer/patient advocates and industry bodies.

Industry/Sector	Representatives interviewed
Insurers	<ul style="list-style-type: none"> • AIA International Limited • AXA China Region Insurance Company Limited • Blue Cross (Asia-Pacific) Insurance Limited • Bupa (Asia) Limited • HSBC Insurance (Asia) Limited • Manulife (International) Limited • Prudential General Insurance Hong Kong Limited • Sun Life Hong Kong Limited • Zurich Insurance Company Limited
Reinsurers	<ul style="list-style-type: none"> • Swiss Re International SE
Intermediaries	<ul style="list-style-type: none"> • Hong Kong Confederation of Insurance Brokers • Professional Insurance Brokers Association
Healthcare Institutions / Medical Practitioners	<ul style="list-style-type: none"> • Association of Private Medical Specialists of Hong Kong • Hong Kong Association of the Pharmaceutical Industry • Hong Kong Medical Association (twice)
Consumer / Patient Advocates	<ul style="list-style-type: none"> • Consumer Council • Hong Kong Patients' Voice
Industry Bodies	<ul style="list-style-type: none"> • Actuarial Society of Hong Kong • HKFI – Healthcare Reform Taskforce • HKFI – Medical Insurance Association

We have also conducted three workshops with insurers and reinsurers to discuss the technical details of the product design of the VHIS. In addition, FHB has conducted four Consultative Group meetings with representatives from different sectors, including insurance industry, healthcare institutions, and civil societies and academics.

STC serves to achieve the following objectives:

¹ The Consultative Group provides views and suggestions on proposals and recommendations made by the Food and Health Bureau and its consultant, Deloitte, concerning the implementation details of VHIS. It comprises of members from insurance industry, health care institutions, and civil societies and academics.

- Enhance transparency of the individual hospital insurance products;
- Promote market best practices and enhance consumer protection in conducting the individual hospital insurance business; and
- Balance the considerations of consumer protection, premium affordability and commercial viability of the insurance plans.

By requiring different insurers to adopt the same set of STC under the VHIS, it should enable consumers to better comprehend the terms upfront and minimise the disputes over interpretation afterwards.

The STC would include the following key elements:

- the rules governing the condition of issuance, eligibility and validity of the policy;
- interpretation of terms in case of inconsistency found between the STC and the other terms and conditions under the same policy (including its endorsement and rider) and the STC;
- the rights and obligations of the policy holders and the insurers, such as underwriting, disclosure of health information, transfer of ownership and termination/cancellation arrangement;
- renewal arrangement which is guaranteed according to the complying requirements applicable at time of renewal;
- premium payment, collection, adjustment and "grace period" arrangement;
- general claims procedure and settlement, including the provision of claimable amount estimate and free choice of healthcare service providers and ward class under the coverage tantamount to the protection under Standard Plan; and
- definition of key terms

Apart from standardising the terms and conditions, STC also incorporates a number of features, which may not be (or only partly) included in the existing IHIP in the Hong Kong market, such as coverage for:

- Prescribed diagnostic imaging tests;
- Unknown pre-existing conditions with standard waiting period;
- Prescribed non-surgical cancer treatments;
- Psychiatric treatments;
- Congenital diseases; and
- Day case procedures.

Another feature of the STC is that there are minor allowable variations in the STC. These variations are allowed because of the technical issues that could be faced by the insurers and are therefore considered necessary. To maintain consistency in market practices, we have kept the allowable variations to the minimum.

There are 9 Parts and Benefit Schedule in the STC:

- Part 1 Insuring Clause & The Policy
- Part 2 General Conditions
- Part 3 Premium Provisions
- Part 4 Renewal Provisions
- Part 5 Claim Provisions

- Part 6 Benefit Provisions
- Part 7 General Exclusions
- Part 8 Definitions
- Part 9 Provisions for Multiple Policy Holders [Optional]
- Benefit Schedule

The early drafts of STC was presented to the Consultative Group on VHIS on 14th December 2017 and 1st February 2018 for discussion. The first complete draft of the STC was published on the government website on 1st Mar 2018. We made further revisions in recent months to finalise our recommendations.

1.3 Product Compliance Rules (Part II)

For the purpose of the product certification, a set of detailed rules titled “Product Compliance Rules under the Ambit of the VHIS” (“the Rules”) is drafted to set out the complying requirements of VHIS-compliant insurance plans and the relevant product certification procedures, by which the insurance companies joining the VHIS can design compliant insurance plans. In particular, insurers are required to comply with these rules where applicable in order to be registered with the FHB as a VHIS provider. This report recommends such set of rules, supplemented with our considerations.

The Rules mainly deal with:

- The criteria of a certified Standard Plan
- The criteria of certified Flexi Plans
- What other components can be added into a Certified Plan and to what extent

In the development of the Rules, we have gathered views from relevant stakeholders with specific areas of interest through 21 interviews. Meetings are held with representatives from insurers, reinsurers, insurance intermediaries, healthcare institutions, medical practitioners, consumer/patient advocates and industry bodies. The representatives interviewed are set out in the table in Section 1.2.

We have also collected the relevant product features of IHIP in the market. After review, these product features are selected and categorised into four groups, which become different components of an insurance plan under VHIS as follows:

Basic Benefits	Enhanced Benefits	Other Benefits	Other Insurance Plans
Fixed in product design	e.g. higher limits, extra benefit items	Other than Basic and Enhanced Benefits, but related to life, accident or health protection	Other plans not contradicting with VHIS objectives
Standard Plan		(Optional for Standard Plan)	(not forming part of the Certified Plans)
Flexi Plans		(Optional for Flexi Plans)	(not forming part of the Certified Plans)

Standard Plan benchmarks the minimum requirements of Certified Plans under VHIS, namely Basic Benefits in the Rules. Enhanced Benefits under Flexi Plans mainly offer benefits that exceed the minimum requirements of Certified Plans under the Standard Plan framework, such as additional indemnity hospital coverage or other prescribed benefits. Both Standard Plan and Flexi Plan are allowed to encompass a minor element of benefits other than Basic Benefits and Enhanced Benefits, namely Other Benefits. Other Benefits are allowed to form a minor part of a Certified Plan to facilitate migration of existing policies to the VHIS segment, or satisfy licensing requirement. An insurance policy issued under a Certified Plan is allowed to cover other insurance plan(s) as well. However, such other insurance plan(s) will not be considered as part of the Certified Plan.

The details of recommended complying requirements under the Rules have structure as follows:

- Introduction
- Complying Requirements of Certified Plans
 - Basic principles
 - Complying requirements of Standard Plan
 - Complying requirements of Flexi Plans
 - Complying requirements of Enhanced Benefits
 - Complying requirements of Other Benefits
 - Other flexibilities allowed for Flexi Plans
 - Variations in terms and benefits of Certified Plans
 - Definition and structuring of a VHIS policy
 - Implementation
- Annex I – List of Enhanced Benefits items other than those enhancement on the Standard Plan framework
- Annex II – List of Other Benefits
- Annex III – Glossary

1.4 Conversion Options (Part III)

Under the refined proposal of VHIS stated in the consultation report published in January 2017, insurers are allowed to offer various forms of hospital insurance products alongside

VHIS-compliant products which can address their concern and provide the choices needed. Under the refined proposal, insurers will also be encouraged to offer Conversion Option to facilitate people with group coverage to purchase an individual-based plan (Paragraph 7.5 of the consultation report). Against this backdrop, there is an issue about how to enhance consumer protection for those people taking out Conversion Option, including not only those with group coverage but also those with individual coverage who wish to have a choice to convert to VHIS-compliant plans in the future. We are commissioned by FHB to recommend standard contract clauses for both Group Conversion Option ("GCO") and Individual Conversion Option ("ICO") for this sake. We understand that these clauses are reserved for longer-term reference, with a view to facilitating inclusion into the VHIS framework as and when needed in the future.

The GCO is the type for policy holders entitled to group-based hospital insurance products. While the purchase of the GCO is group-based as an agreement between the employer and insurer, it is the right of employees to exercise the GCO following the required conditions stated in the policy terms and conditions. In the current study, the relevant possible hypothetical scenario would be that an insurer offers a VHIS-compliant plan as the GCO for the insured persons of a group insurance policy.

The second type is ICO which means the policy holders should have the right to convert from an individual plan to another individual plan in the future. Usually the latter plan would be superior in protection to the former plan. In the current study, the relevant possible hypothetical scenario would be that an insurer offers a VHIS-compliant plan as the ICO for the insured persons of a non-compliant individual plan.

Standardising the contract clauses for Group and Individual Conversion Options has the following functions:

- To enhance transparency of the GCO and ICO in assisting consumers to make proper understanding of their right under those options.
- To provide clear guidance on practices of conversion options so as to enhance consumer protection.
- To provide reference to insurers when offering non-VHIS certified hospital insurance products and group hospital insurance products.
- To manage the reasonable expectations of consumers on conversion options.

The GCO and ICO include the following key elements:

- Qualifying conditions;
- When to make conversion application;
- Product choice for conversion;
- Re-underwriting at the time of conversion;
- Acceptance of conversion application;
- Effective date of the new cover;
- Cooling-off right under the new cover;
- Coverage of known/unknown pre-existing conditions; and
- Conversion by dependants of employees.

However, since both group policies and non-VHIS compliant individual products are not under the purview of the VHIS, and they could be offered by the insurers which are not registered under VHIS, we are of the opinion that a set of standard clause for GCO and ICO may not be necessary and technically viable. Instead we recommend that, through

promotion and education, insurers in the market may and would be encouraged to adopt the business best practices for the key elements stated above in the drafting of the contract clauses of their conversion option.



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