



The Government of HKSAR Food and Health Bureau

Consultancy study on the implementation details of
underwriting and service guidelines for the
Voluntary Health Insurance Scheme

Executive Summary



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Executive Summary

Background

The Voluntary Health Insurance Scheme (“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 between December 2014 and April 2015 revealed a broad support to the VHIS from the general public, which culminated in a consultation report released by the Food and Health Bureau (“FHB”) in January 2017.

In order to take forward the VHIS into implementation, Deloitte Advisory (Hong Kong) Limited (“Deloitte” or “we”) was engaged to formulate a set of implementation guidelines, consists of three parts, covering (1) general underwriting process; (2) case-based exclusions; and (3) consumer services for the VHIS (including details in the migration arrangement for the existing IHIP policies). Through various channels we collected valuable views from various stakeholder groups as reference for our assessment and recommendations.

Overarching Principles

Hong Kong insurance market is diversified and competitive. In order to preserve the market diversity and competitiveness, and encourage the voluntary participation of insurance companies in the VHIS, current market practices and regulatory requirements were taken into account while formulating recommendations. Recommendations are VHIS-specific, focusing on the fulfilment of VHIS requirements as well as the necessary technical details for implementing the VHIS. For example, migration arrangement of in-force policies from existing IHIP to VHIS-compliant products, in order to facilitate the smooth adaptation of insurers and intermediaries to the introduction of VHIS.

There are five key objectives for the implementation guidelines that were identified and considered appropriate upon our study:

- Set out the required conduct and practices to supplement the Standardised Policy Terms and Conditions Under VHIS;
- Enhance transparency and accessibility of the VHIS market segment so as to assist consumers to make proper comparison between VHIS-compliant plans certified by FHB (“Certified Plans”) and exercise informed choice;
- Ensure fair treatment to customers;
- Facilitate compliance with the minimum requirements of VHIS; and
- Facilitate claims for tax deductions for the qualifying premiums paid by policy holders for Certified Plans.

Key Findings

General Underwriting Guidelines

In Hong Kong, there is no specific regulation on medical underwriting. Underwriting practices and approaches differ among insurers. Insurers formulate underwriting strategy by considering factors such as product design, marketing strategy, claims experience, and risk appetite.

Two of the most commonly adopted underwriting approaches in IHIP are full medical underwriting and simplified medical underwriting. The extent of an applicant's obligation of disclosure would depend on the underwriting approach adopted by an insurer at the time of purchasing the product. The insurer would then determine the underwriting decision based on the facts disclosed and information provided by the applicant, such as acceptance of application, acceptance with conditions (with premium loading and/or case-based exclusion), rejection of application or postpone of application due to missing information.

During the consultancy study, the need of enhancing clarity throughout the underwriting process, the requirement of full disclosure as well as the consequences of non-disclosure were identified as the major concerns during the underwriting process. To address these concerns, recommendations were made regarding:

- The need of enhancing transparency and clarity during i) collection and use of information, ii) underwriting process and iii) notification and explanation of application results; and
- In the context of VHIS, it is important to provide flexibility for insurers to adopt various underwriting approaches while putting measures in place to safeguard consumer interests, especially in the event of non-disclosure disputes during claims.

Case-based Exclusion Guidelines

In Hong Kong, case-based exclusions are commonly imposed on the pre-existing condition(s) reported by an applicant. There is no generally agreed standard in the market in applying case-based exclusions – the methodology of assessing pre-existing conditions could vary greatly among insurers depending on the insurers' underwriting practice. For the same or

similar pre-existing conditions, the extent, definition and scope of case-based exclusion may vary across insurers and insurance products.

A list of pre-existing conditions commonly encountered by insurers in Hong Kong and their respective claims impact under IHIP were reviewed in our consultancy study. As a result, a set of principle-based guidelines and detailed underwriting practices in applying case-based exclusions for some common pre-existing conditions were drawn up.

Consumer Services Guidelines

Health insurers offer four key consumer services in Hong Kong: i) sales and marketing, ii) policy service, iii) claims handling and iv) after-sales services, such as enquiries and complaints handling.

There was a general consensus that recommendations regarding consumer services should be developed in line with the existing market regulations and guidelines, for instance, the Guidelines issued by the Insurance Authority ("IA"), and the Code of Conduct for Insurers and Cooling-off Period Guidelines for life insurance business issued by the Hong Kong Federation of Insurers ("HKFI") as part of the self-regulatory initiatives taken by the industry.

Many views also agreed that clear details should be laid down in areas that are specific to VHIS, such as migration arrangements, cooling-off period, budget certainty and tax deduction, in order to facilitate smooth adaptation of insurers and intermediaries to the introduction of VHIS.

Key Recommendations

After reviewing the local market practices and comments from key stakeholders, and having consensus with FHB for the sake of better presentation, recommendations were structured into two parts instead of three parts:

- Part I Principle-based requirements with solid market consensus that are ready for adoption by VHIS insurers. Instead of having three sets of guidelines, namely “General Underwriting Guidelines”, “Case-based Exclusions Guidelines” and “Consumer Services Guidelines”, we consolidate the three guidelines into one set of “Code of Practice for the Insurance Companies under the Ambit of Voluntary Health Insurance Scheme”.
- Part II Requirements that are more specific and would be implemented only after consensus has been forged among stakeholders and/or sufficient industry experience has been accumulated. Though the relevant requirements are not readily implementable in the short term, the concepts involved can serve as good reference for longer-term deliberation. Part II will provide the relevant content.

The Code of Practice under Part I above covers the following five key areas:

- **Product availability for application:** Insurers should offer at least Standard Plan to Hong Kong residents who are aged between 15 days and 80 years. Offering of Flexi Plans should hinge on market initiatives
- **Migration arrangements:** Insurers should offer a one-off migration facilitation to policyholders who have signed up for IHIP before the implementation of the VHIS (“existing IHIP policyholders”) by offering each existing IHIP policyholder a VHIS-compliant option within a 10-year migration window period after FHB commences registration of insurance companies as a VHIS provider.
- **Sales and marketing:** Insurers should provide clear, accurate and non-misleading information about VHIS and VHIS-compliant products which is easily accessible so that consumers can make informed choices, including product and premium information, cooling-off arrangements, choice of healthcare providers and tax deduction

- **Application, underwriting and issuance of policies:** Insurers should inform or make known to applicants of their rights and obligations during the underwriting process, and reasons for the underwriting decision and application result. Insurers should adopt a fair, objective and consistent underwriting practice when assessing applicants with similar risk
- **After-sales services:** Insurers should provide effective after-sales services to assist their customers to understand their rights under the VHIS, and handle complaints specific to VHIS