



2nd June 2008

Food & Health Bureau
19/F Murray Building
Garden Road
Central
Hong Kong

Dear Sirs,

Re : Healthcare Reform

Please find enclosed the feedback AXA China Region Insurance Company Limited would like to provide on the healthcare reform consultation issued by the Food & Health Bureau of the Hong Kong Special Administrative Region in March 2008.

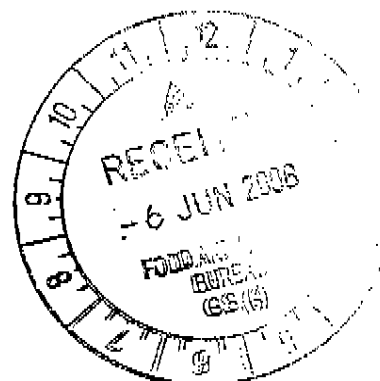
If you have any queries in relation to the feedback, please contact Miss Veronica Wong, our Chief Business Officer at 28288428.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Francine Fu'.

Francine Fu
Marketing

Encl./



**Healthcare Reform Consultation Document
Food and Health Bureau of the Hong Kong SAR
Consultation period March 2008 to June 2008
Response from AXA China Region Insurance Company Limited**

AXA China Region Insurance Company Limited has been offering insurance cover to individuals as well as companies in Hong Kong for 22 years. Our insurance service includes medical, life, general insurance as well as Mandatory Provident Fund schemes. AXA has also been a major player in group medical insurance for many years and was the third largest underwriter by gross premium in 2007. We are currently serving the interests of over 800,000 policyholders, 600 employees and 3,000 distributors. AXA takes a keen professional and social interest in the latest paper issued by the Hong Kong SAR government on healthcare reform.

The government has been providing a high quality of medical care to the community of Hong Kong through the work of the Hospital Authority for a number of years. However there remained issues with regards to accessibility, safety net, choice and excessive burden on the medical staff at the public facilities. We therefore fully support the government's effort to address not only these current issues but the long term sustainability of the overall system.

AXA has had experience in healthcare insurance in many parts of the world. There are many different types of healthcare systems and we have found that the system chosen is very often determined by the political situation at the time. Each society has its own unique history, culture, values and stage of development. However, we believe, irrespective of the political considerations, a comprehensive and effective healthcare system needs to

- 1) Provide good basic healthcare and medical services for the whole community
- 2) Ensure that wastage is minimized and resources are utilized effectively and efficiently
- 3) Provide effective measures to encourage responsible behaviour of users, medical service providers and insurance companies
- 4) Achieve its objectives without excessive and unnecessary administration cost

We agree with the key principles and concepts of the government's service reform proposals which aim to provide better care for the community, more choices of good quality services, healthcare protection, peace of mind and promote partnership for health. In the consultation paper, the government proposed to look at reforming 5 areas of the healthcare system

- 1) Enhance primary care
- 2) Promote public-private partnership in healthcare
- 3) Develop electronic health record sharing
- 4) Strengthen public healthcare safety net
- 5) Reform healthcare financing arrangements

Enhance primary care

We agree that enhancing primary care is a proven effective measure in improving the general health of the population as well as a powerful tool for controlling cost as it focuses on preventive rather than curative measures. It would also help to promote greater personal responsibility for one's health. However we feel that the current proposal of merely setting up a standard model as well as a register of family doctors, subsidies and education would not be effective in promoting primary care. We have seen and have reason to believe that without meaningful incentives for doctors to become family doctors and a mechanism which involve them in a more structured way, the habits of focusing only on curative medical care would not change. Without this important tool, no supplementary financing model would be able to keep up with the rate of escalation of the total expenditure on healthcare.

Promote public-private partnership in healthcare

We support the principle and concept of public-private partnership to enhance cost-effectiveness, optimize use of human resources and cross-fertilize expertise and experience.

Develop electronic health record sharing

We support building an infrastructure to facilitate more timely and better informed medical attention to be given to the community.

Strengthen public healthcare safety net

We endorse the principle that all members of the community should be able to access good basic healthcare through a wider coverage of subsidized drug formulary and more resource for the Samaritan Fund. The consultation document proposed providing financial assistance for those who suffer from major illness but not qualified for the safety net. We feel that there may be more effective ways of protecting this group from crippling medical costs. Supplementary major illness insurance schemes with co-payment may be a more efficient mechanism as it can help to pool the risk and encourage more judicious use of resources.

Reform healthcare financing arrangements

We agree that supplementary financing models need to be established to reduce the over-reliance on public services. At the same time, the new model would need to focus on containing the escalation of medical expenditure as a whole, irrespective of its funding source. Therefore the financing arrangement has to be effective in shifting the usage of public facilities to private medical services as well as encourage judicious use by the population and competition to reduce charges by medical service providers and insurance companies in a sustainable manner. The effect needs to be significant enough to generate more funding to strengthen the safety net. Moreover, the funding system needs to reflect the social values of the community at large.

1) Social health insurance

Raising general tax and introducing social health insurance in order to provide supplementary healthcare funding would appear to deviate from the basic philosophy which Hong Kong has adhered to for many decades. A free economy accompanied by a low tax environment and strong self-reliance has been the backbone of the community's development and strength. Therefore we are not sure whether these options are the most suitable for the environment which we currently live in. In addition, both measures do not encourage judicious use of medical services. They would be ineffective in controlling the rate of increase in the total medical expenditure, which is set to exceed that of the projected growth of Hong Kong's GDP. Therefore they may not be a long term solution for financing Hong Kong's healthcare system.

2) Out-of-pocket payments

The consultation paper has already pointed out that out-of-pocket payments cannot be relied on as a main source of funding to supplement the deficiencies of the system. However if means testing could be introduced to charge those who could afford higher fees, this system could still provide a meaningful and immediate relief to the public hospitals as well as encourage genuine competition between the private and public facilities.

3) Medical savings account

According to the projection given by the government, a medical savings account would not be effective for 80% of the working population unless the savings level exceeds 5% of their income, assuming the savings would be used to pay for medical expenses directly. This may prove to be a relatively heavy burden, especially for those earning HK\$15,000 or below a month. In addition, with the public services continued to be heavily subsidized by the government without any form of co-payment, the general public will end up patronizing those facilities in the same proportion as before. Therefore there will not be any significant relief for the public services. It will also not be effective in giving those who currently do not qualify for the safety net peace of mind against major illnesses where the cost of medical treatment could be crippling. Furthermore, medical savings accounts which are used to pay for medical bills directly do not help spread the risk, leaving a heavy burden for those who happened to be in poor health. Finally, the ongoing administration cost would be significant for running the mandatory savings account.

4) Voluntary private health insurance

The contribution of voluntary private health insurance towards the overall health expenditure is already relatively high in Hong Kong, when compared to other advanced economies. Therefore even with additional financial incentives, the proportion of funding which could be generated from voluntary private health insurance would not be expected to increase significantly. In addition, without some sort of regulation of the insurance schemes to ensure some form of co-payment or regulation of cost of the medical service providers and insurance companies, the overall total healthcare expenditure may rise at an even quicker pace. It would also give little additional protection for those who are in poor health and have pre-existing health conditions. Although this arrangement alone may not help to address the problems our healthcare system is facing, voluntary private insurance will continue to play an important role in the overall healthcare system in Hong Kong in conjunction with other supplementary financing options.

5) Mandatory private health insurance

A mandatory private health insurance scheme covering the whole population and based on community-rated premiums would ensure that everyone be covered irrespective of health and financial conditions. The government would need to consider providing financial assistance to low income and under-privileged families for the premium payment. As there is an existing infrastructure in place, this would be a relatively efficient use of administration resources. We have found that market forces are much more effective in regulating costs, as such a private health insurance scheme has a clear advantage over a social health insurance system. However there need to be room for genuine competition and it is not clear how a no-profit mechanism would be able to facilitate such an outcome. The ongoing administration cost is also relatively low relative to a social health insurance scheme or medical savings account. Nevertheless, for the scheme to meet all the objectives of the reform, there would need to be additional measures put in place

- a. Co-payment introduced as part of the scheme to encourage partnership in healthcare and judicious use of the medical facilities
- b. Supplementary schemes for major illnesses to provide peace of mind for those who are not covered in the safety net
- c. Effective incentives for insurance companies to invest to improve efficiency and result in lowering cost to users
- d. Regulation or effective incentives for medical service providers to control costs
- e. Clarity on the mechanism in setting the premium rates to ensure overall sustainability of the model

6) Personal healthcare reserve

A personal healthcare reserve would give all the benefits of a mandatory private health insurance scheme with the additional advantage of ensuring that as the population aged, those in retirement could still afford the premium payment. The major drawback would be the administration cost involved. However, there is already an existing infrastructure in place for the Mandatory Provident Fund Scheme and the cost could be reduced if that could be effectively leveraged.

In summary, we support the key principles and concepts proposed in the consultation document. We would urge the government to look closely at the measures proposed for enhancing primary care to ensure that the general health could be improved and cost of the overall curative medical services could be contained. Irrespective of the financing model chosen, it has to have effective measures to encourage judicious and responsible use of the resource by the community and incentives for service providers to lower costs. Therefore we believe that the following areas need to be addressed by the government

1. An effective way of controlling the total medical cost which need to involve regulation of as well as facilitation of genuine competition amongst the medical service providers and insurance companies.
2. An effective way of controlling the total medical cost by providing financial incentives to build a solid primary healthcare system

3. If a mandatory insurance scheme were to be introduced, clarity how the premium is going to be determined and set
4. Co-payment to ensure judicious use of medical services and shared responsibility between the government and the community

It is of utmost importance that the government focuses on containing the cost of the total medical expenditure, irrespective of the source of funding. Without effective measures and proper focus on this matter, it would be hard to sustain the source of healthcare funding, wherever it came from, in the long run.