



Blue Cross 藍十字

Member of BEA Group 東亞銀行集團成員

Blue Cross (Asia-Pacific) Insurance Limited
藍十字(亞太)保險有限公司

Customer Service Hotline 客戶服務熱線 : 3608 2988
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13th June, 2008

By Hand
Food and Health Bureau
19/F Murray Building
Garden Road
Central
Hong Kong

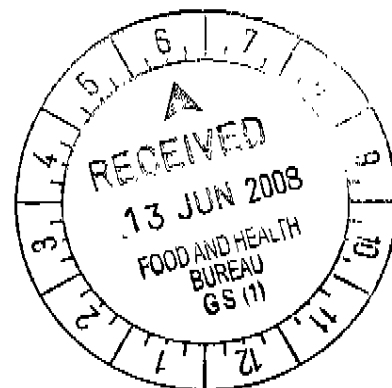
Dear Sirs,

I refer to the consultation document on healthcare reform entitled "Your Health, Your Life" launched by The Hong Kong SAR Government in March 2008. I am pleased to submit herewith our company's views on the said consultation document.

We very much look forward to participating in the second round consultation in due course.

Yours sincerely,

David K.P. Li
Chairman



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Views from Blue Cross (Asia-Pacific) Insurance Limited (“Blue Cross”)
on
Healthcare Reform Consultation Document (“Consultation Document”)

Below are our views on the Consultation Document “Your Health, Your Life”:

Views on need for reforming the existing healthcare system

Healthcare protection for the general population is currently largely funded from the public purse. High-quality medical services are delivered using advanced medical technologies by talented healthcare professionals at very low fees. However, the ageing population, advances in medical technology and increases in healthcare costs are putting pressure on the present public healthcare safety net. These challenges to the present system must be overcome, if Hong Kong is to provide a sustainable healthcare system for future generations.

Views on the financing options

The Consultation Document puts forward six supplementary financing options for discussion. The six options are:

1. Social health insurance
2. Out-of-pocket payments (user fees)
3. Medical savings accounts
4. Voluntary private health insurance
5. Mandatory private health insurance
6. Personal healthcare reserve



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We believe that the ideal supplementary financing options should provide:

- Pooling and sharing of risk: The financial risk arising from illnesses is pooled and shared broadly;
- Choice of services: Choice of doctors/providers, care facilities, options for treatment;
- Market competition and efficiency: Competition among healthcare providers enhances price transparency, quality, efficiency and cost-effectiveness of healthcare services; and
- Utilisation and cost control: Encourage judicious use of healthcare resources and contain the cost of healthcare.

Among the six options, we prefer options 4, 5 and 6, since they are able to achieve pooling of risk, allow choice of services, encourage market competition and efficiency, and result in containment of healthcare costs.

Preferred Financing Options

1. Option 6 – Personal healthcare reserve (most preferred)

We see this option as an opportunity to combine mandatory private health insurance and medical savings accounts.

Mandatory health insurance will allow subscribers to have universal access to healthcare services without worrying about the financial risk of severe illness. Compared to voluntary insurance, mandatory insurance will cover a much larger population and achieve a more effective spread of health risks. As a result, this will give rise to the following benefits:

- premium rates charged may be reduced;
- insurance protection may be provided on a guaranteed acceptance basis;

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- insurance exclusions may be greatly reduced or substantially removed; and
- a uniform set of community premium rates may be applied to the insured population.

In the year 2007, over 40 insurance companies were underwriting health insurance in Hong Kong. Health insurance covered as many as 3.1 million persons, according to statistics compiled by the industry. These health insurers have sophisticated administrative infrastructures, providing efficient services with economies of scale. They are very experienced in providing administrative and claims services. It is expected that their existing administrative platform can be quickly adjusted to the requirements of the future mandatory insurance scheme.

Mandatory health insurance may be a solution to people's current healthcare financing needs, but it cannot do the job alone when future healthcare costs and healthcare premiums continue to rise. As the Consultation Document points out, healthcare expenditure will continue to increase as a result of new technologies and ageing population. To avoid an unbearable burden of ever increasing insurance premiums in the future, mandatory health insurance must be supplemented by pre-funding of future healthcare costs.

Medical savings accounts achieve pre-funding of healthcare costs by requiring subscribers to save for their own future healthcare costs and encourage self responsibility. They allow a continuous accumulation of funds throughout one's career to cover insurance premiums and medical expenses after one retires. As the proposed operation of the medical savings accounts is very similar to that of MPF, the existing MPF platform should be used as a model for the programme. As subscribers to medical savings accounts will most likely be existing MPF subscribers, the contribution rate for the medical savings accounts ought to be set at a level whereby subscribers can afford both contributions. Like MPF, employers' contributions to the medical savings accounts may be considered.

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Personal healthcare reserve takes care of both current and future healthcare financing requirements and is therefore the most favoured option.

2. Option 5 – Mandatory private health insurance

The advantages of mandatory private health insurance in healthcare financing have been described in the previous section. A regulated mandatory scheme should of course impose adequate regulations on all service providers including private health insurance companies to protect the public interest. While we agree that administrative fees may be regulated, we wish to highlight that the level at which administrative fees are set should give due consideration to the extent of the necessary services required. This will ensure that members of the mandatory scheme will not be deprived of any necessary services.

At the same time, a reasonable risk margin should be allowed to absorb fluctuations of medical claims or healthcare costs, so that insurance companies can build up adequate reserves to cover future liabilities. Building up adequate reserves is necessary for insurance companies to ensure that they will remain financially solvent and meet their contractual obligations to insured members.

3. Option 4 – Voluntary private health insurance

Private health insurance is a well established type of insurance in Hong Kong. It is also an important part of people's financial planning. At present, many companies have been providing medical insurance for their employees, who may also have purchased insurance packages at their own expenses. According to the Medical Insurance Business Statistics for 2007 compiled by The Hong Kong Federation of Insurers, insurers wrote a total of HK\$7.9 billion in medical insurance premiums last year. The number of insured stood at 3.1 million.

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This option will encourage members of the public to purchase private health insurance in the market voluntarily, at their own expense and according to their own choice. Currently, there are over 40 insurance companies (Life and General Insurance) in Hong Kong writing medical insurance. The keen competition in the insurance market is a driving force for companies to keep increasing their service standard and maintain premiums at a stable and reasonable level.

This option can integrate into any future mandatory scheme as a top-up health insurance scheme to cover those healthcare services or expenses that are not covered by the mandatory scheme. We believe some incentives, in particular tax relief, should be provided to encourage people to take out health insurance voluntarily at any time.

Way Forward

To maintain a sustainable healthcare system while retaining the quality of care the population has come to expect, both Government and all stakeholders will play a vital role in reform. The second round of public consultation will be conducted early next year. We look forward to hearing the detailed proposals from Government after gathering public views during the first round of consultation.

David K.P. Li
Chairman
Blue Cross (Asia-Pacific) Insurance Limited