Creating Sustainable Value for Private Health Insurance Market in Hong Kong

29 May 2019

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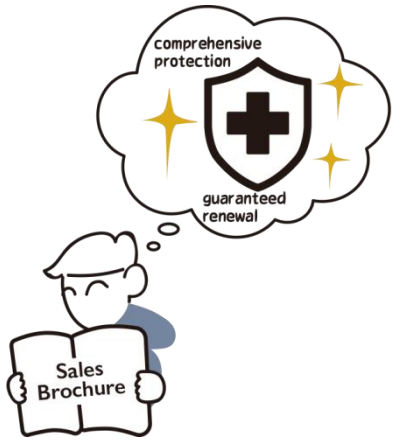
Are PHIs Giving Consumers A Peace Of Mind?

Guaranteed Renewal = Continuous Protection ?

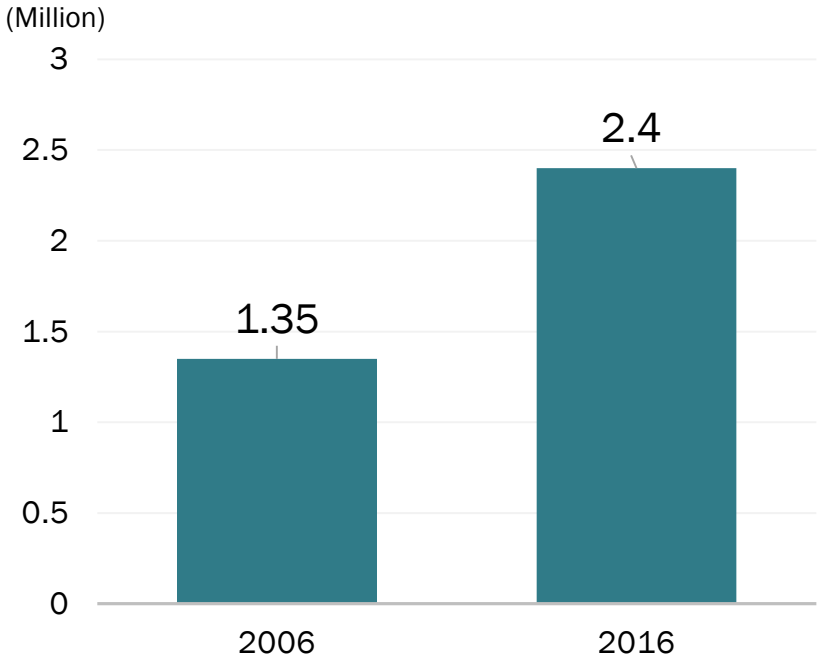
Buying at Young Age = Affordable at Old Age ?

Growth in PHI = More Usage in Private Healthcare Services ?

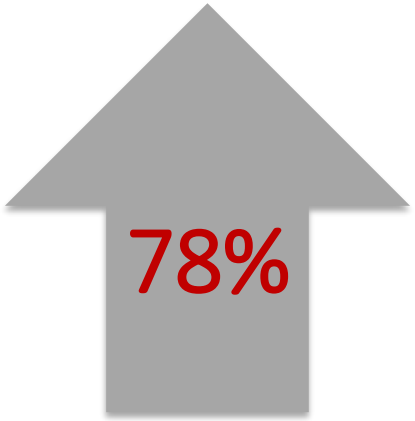


Growing PHI Market

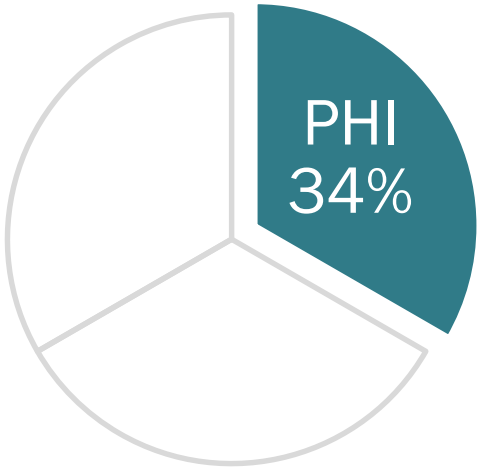
No. of people covered by PHI



Surged in 10 years



Over 1/3 of local population with PHI



Source: Census and Statistics Department. (2007) *Thematic Household Survey Report No.30;* (2017) *Thematic Household Survey Report No.63*.

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43% A significant portion of the PHI covered population was treated in the public hospitals* - Lack of Confidence in PHI

Perceived shortcomings

- Dispute over insurance claims
- Exclusion of pre-existing conditions
- Inadequate benefit coverage
- Lack of continuity of policies
- Uncertainty over eligibility and ratio of reimbursement
- Implications of medical claims on policy premium upon renewal

Consumer Complaints (2015 – 2018)

- Insurance Complaints Bureau: 748 cases
- Consumer Council: 299 cases
- Majority related to application of policy terms, non-disclosure, excluded items

Source: * Research Office, Legislative Council Secretariat. (2018) *Health insurance for individuals in Hong Kong*.

What Consumers Said

續保時，我已話**唔需要提升計劃**嘅保障範圍...最終佢話我購買嘅**保險計劃已經不存在或終止提供**。這種隨時可以改變的做法對已買了保險的消費者有咩保障呢！

保險公司**漠視醫生的診斷...一句沒有「住院需要」便拒絕賠償...**實在霸道無理，欺負弱小消費者，繳付多年保費卻換不到合理保障。

It is the **insurance companies' responsibility to clearly specify in the application forms** the information they need for approval

話明永遠唔會加嘅，**係固定保費...但之後都有加保費**。

買這份保險時，也**沒有保險推銷員提及此條款**。

I felt like I am now **actually paying the premium to cover my claim made before...**

又唔可以唔買，因為隨著年紀大...

I've been paying the policy for 3 years without knowing that my policy is actually invalid.

我無諗過保費會加到咁誇張

在簽單時，我有向保險代理提及手曾受傷...他問我有否再弄傷，我說沒有...他便說不用寫進去。保險公司說因我**沒有誠實報告**我之前弄傷，所以不獲索賠。

保險公司單方面**中途提出更改...加入不合理條款**，這是對消費者不公平

This was a **big shock and surprise to me.** I don't understand why they just found these 'impairments' at time of my claim but not at time of my application submission.

代理說可以全數索償，但過往幾次都不行。

This is **outrageous** because this is **not a suitable policy for me anymore**, and I do **not have a chance to say no** upon policy renewal...

我真係**唔敢斷保**，斷咗搵第二間公司會有困難，所以佢加幾多錢，我都要接受。

The reference table shown to me was materially different from the proposed charged amount even at the progressive rates taking into account of inflation and age

WHAT WE FOUND

Policy contract samples were not easily accessible	• Limit choice and impede consumers' ability to shop around
Consumers relied on intermediaries, friends or relatives for information	• Seldom shopping around and compare choice
Policy terms and conditions varied among policies, both the same and across different insurance companies	• Make it difficult for consumers to understand and confusing to compare
Maximum entry age limit commonly set at between 64 to 70 years of age	• Render it difficult for elderly consumers to apply
Questions in application forms were too broad and not specific	• Confuse consumers as to what they are expected to disclose to insurance companies
Premium increased at renewals was unexpected to policyholders	• Triggering condition or justifications for premium increases or claim rejections not understandable to the policyholders
Lack of certainty of benefit limits and coverage, and claimable amount	• Not provide a peace of mind to policyholders
Insurance agents/customer service staff were alleged of providing misleading or inaccurate information	• Give policyholders a false expectation of claim eligibility and indemnity amount, or lead to their failure in disclosure of information
Re-underwriting was applied to policyholders after claims were made	• Lead to imposition of excluded items which will affect continuity of PHI
Insurance companies used different methods/terms (e.g "medically necessary", "reasonable and customary" charges) to limit their payout	• Cause disappointment to consumers on insurance coverage

We see from the Study that while there is a growing demand in PHI from consumers to seek healthcare finance to cover their medical needs, consumers are lack of understanding in relation to significance of policy wordings which tended to be complex, not clearly defined and could be opened for interpretation by insurance companies.

The Need of a Sustainable Growth of the PHI Industry

- **Ageing population**
  - Life expectancies at birth for males and females are 82 years and 88 years respectively at 2017 *

- **A sustainable and beneficial PHI industry is necessary in order to**
  - Enhance consumer protection
  - Help drive more usage of private healthcare services and relieve the pressure on the over-loaded public healthcare system

Source: * Centre for Health Protection, Department of Health. *Life Expectancy at Birth (Male and Female), 1971 – 2017*.

THE STUDY

Study Objectives

- Assess the level of consumer satisfaction on PHI, their understanding and certainty of protection coverage in the health insurance plans
- Understand if consumers encountered any difficulties when engaging with PHI
- Identify possibly unfair conditions and procedures which may limit consumer's access to PHI and the insurance companies' payout obligations to policyholders
- Review different regulatory frameworks to shed light on possible areas for improvement
- Recommend measures, from selling to servicing, to enhance consumer protection in PHI

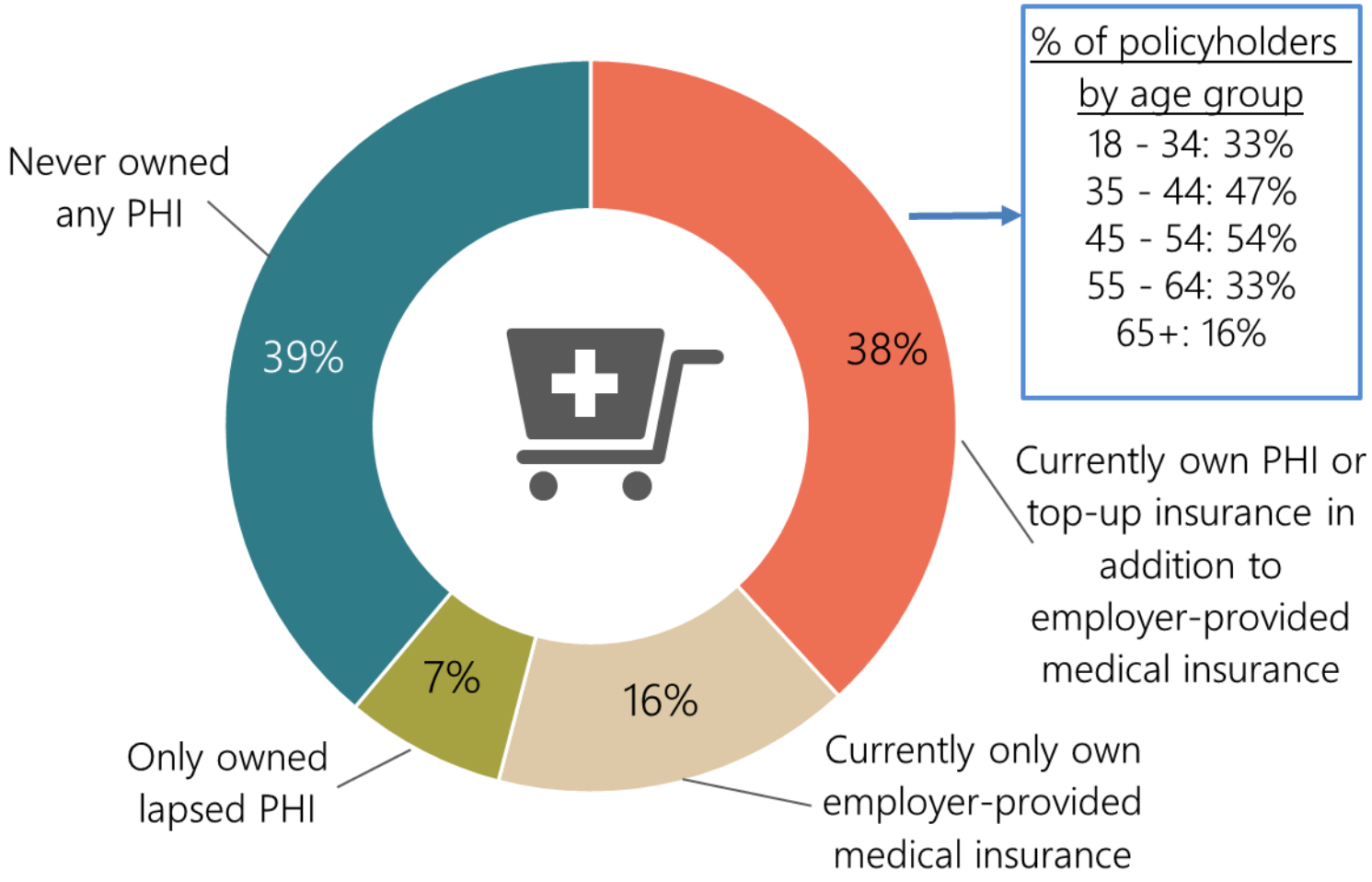
Methodology (May 2016 – Oct 2018)

Consumer Quantitative Research		In-depth Interviews
Establishment Survey	**Claimant Survey**	
■ Telephone survey on 1,000 respondents aged 18+	■ On-street survey on consumers who had made claims within past 30 months ■ 205 respondents in 14 locations	■ 20 claimants aged 18 – 54 (with experience of rejected claims in last 30 – 60 months) ■ 8 elderly consumers aged 55 – 74 (encountered difficulties when engaging with PHI)
Complaints Analysis	**Market and Review**	**Review of Regulations**
■ Review of 299 complaint cases received by the Council (2015 – 2018) related to PHI	■ Contract samples of 18 PHI plans of 14 insurance companies in Hong Kong ■ Legal opinion on specific terms & conditions of PHI contracts	■ Desk research on 6 selected jurisdictions (Australia, Ireland, the Mainland, Malaysia, Singapore & the UK)

Consumer Research

Experiences in purchasing and making a PHI claim

Ownership of PHI – 38% of local population owned PHI
Age group 45-54 has the highest proportion (54%)



Reasons for buying/not buying PHI – Cost is definitely a concern

Top reasons for purchasing PHI

Age 55 – 64
78%

Like to buy it early because insurance is more expensive as I get older	**70%**
Waiting list is too long in public hospitals	63%
My family/friends have medical insurance	57%
Quality of medical care is better in private hospitals	57%

Top reasons for not purchasing any PHI

Public health system is good enough	49%
I am in good health	46%
Unable to afford	**39%**
I have never considered buying PHI	39%

Age 65+
60%

Buying PHI early so it will be less expensive when getting older?

Top reasons for not to renew a PHI

It was too expensive	**27%**
Its coverage was no longer suitable	20%
Already own employer provided medical insurance	20%
The insurance cannot cover what I need	15%

Age 65+: 76%

Age 65+: 48%

Establishment survey
(Multiple answers were allowed)

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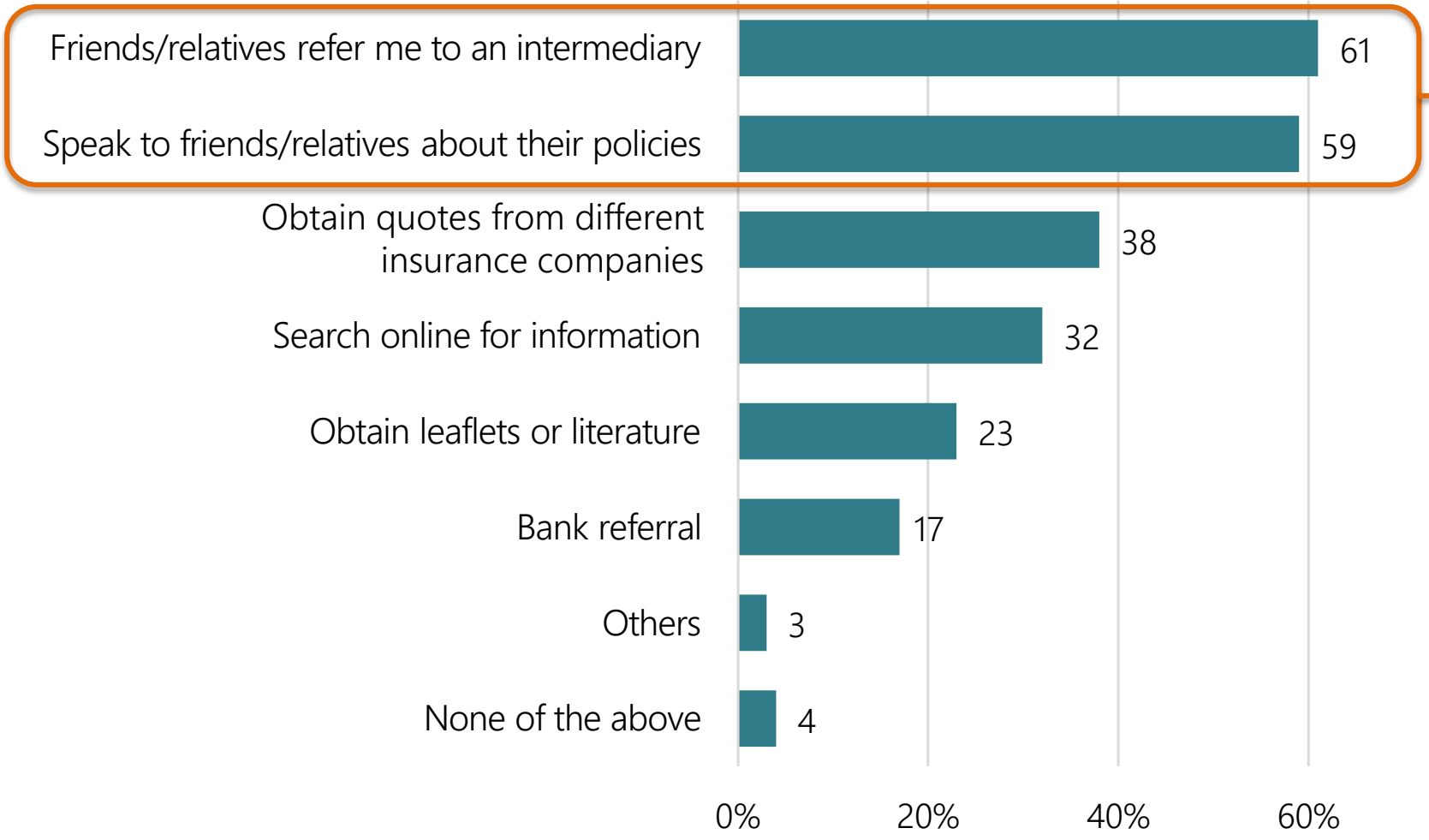
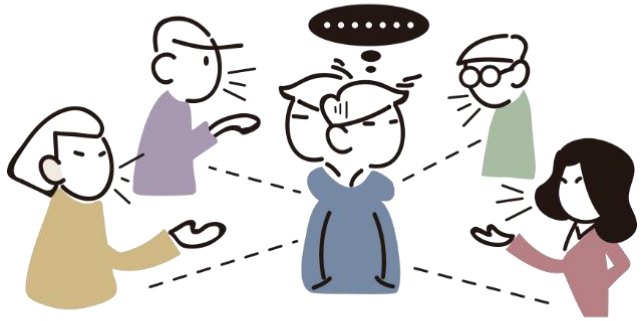
Observations related to purchasing a PHI

Sources of information used before purchase

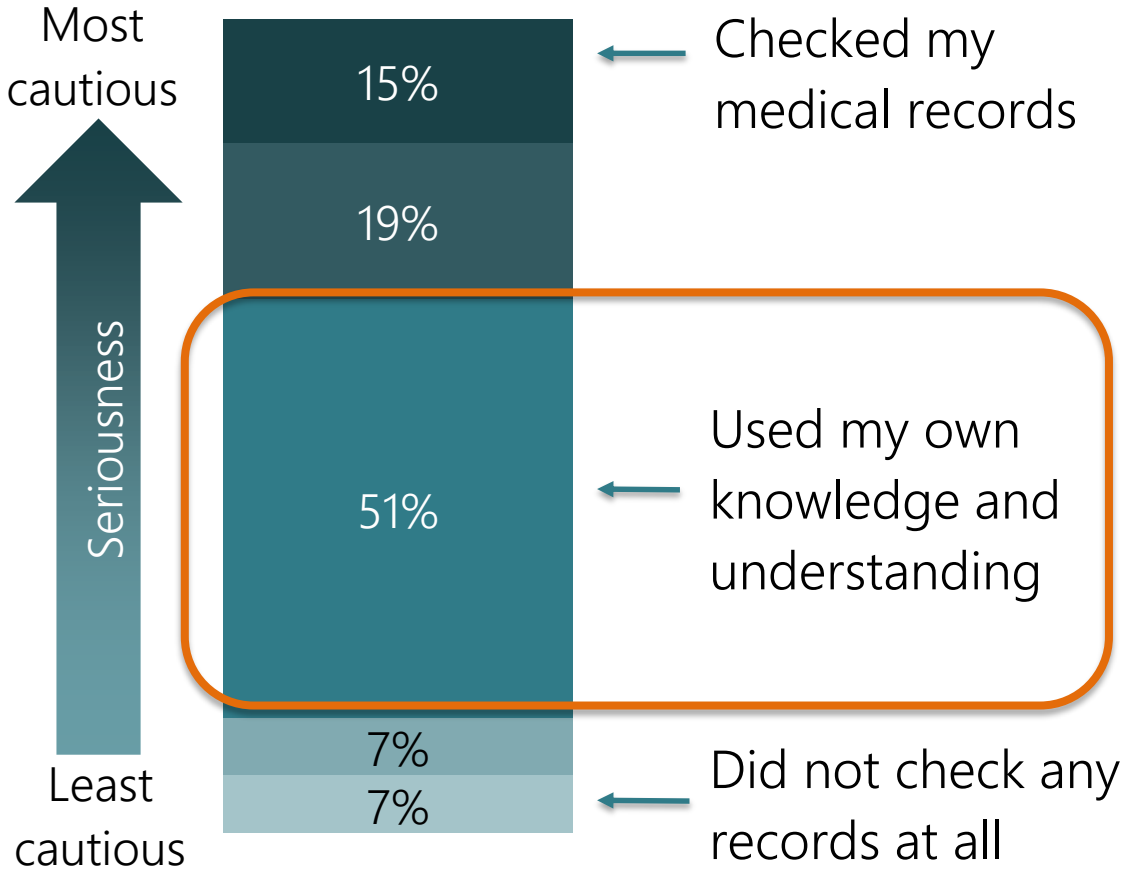


Intermediaries, **friends** and **relatives** play a key role



Establishment survey
(Multiple answers were allowed)

Filling in of the health declaration form – Relied on own knowledge / intermediaries

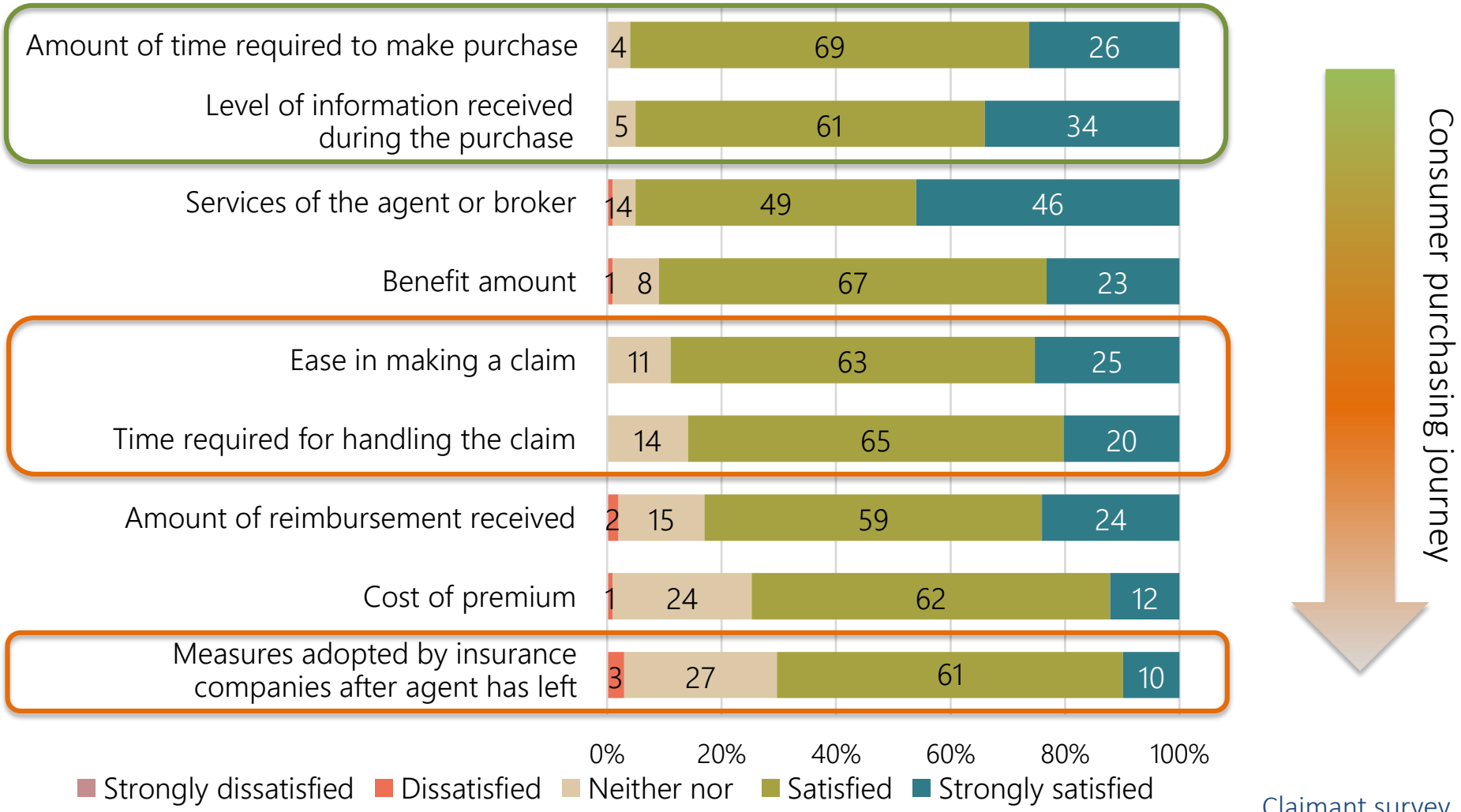


How to ensure health declaration form was accurately filled at time of purchase	
Rely on the intermediaries to fill in the form	46%
Rely only on my own memory	35%
Checked my medical record	19%

Claimant survey

Establishment survey

Overall satisfaction towards insurance companies – Ranked high at the purchasing stage but the level was declining at the post-purchase stage



Claimant survey

Information given by insurance intermediaries – Satisfaction rate only 50% on average, implying room for improvement

Information given by insurance intermediaries	Strongly satisfied / Satisfied	Strongly dissatisfied / Dissatisfied
How to complete the application form	54%	18%
Coverage of the policy	53%	11%
How to make a claim	51%	14%
Premium of the policy	49%	13%
Cooling-off period	46%	20%
Coverage of pre-existing conditions	36%	24%
How to establish pre-existing conditions that I might have	34%	23%

Experience in
making a PHI claim

Determining necessity of medical treatment

Sources approached for information before receiving treatment				
	Insurance agent	Insurance broker	Insurance company	Medical practitioner
Which doctor to use	55%	3%	4%	36%
Whether hospitalisation was justified	7%	0%	0%	93%
Soft quotation of likely cost	18%	3%	5%	82%
Whether the treatment was covered by policy	84%	5%	7%	9%
Cash limit / reimbursement limit	84%	5%	10%	3%

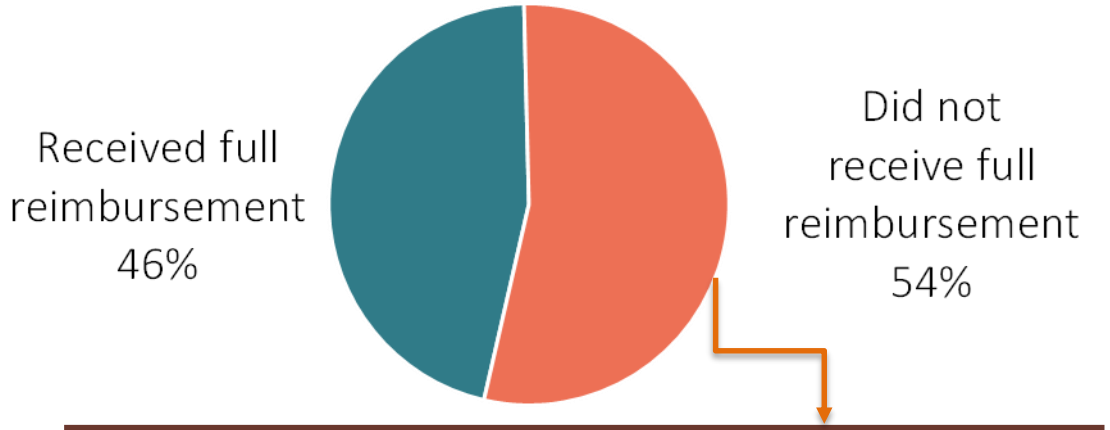
Most respondents relied on medical professionals to advise on the need of hospitalisation and the soft quotation of the treatments

Expectation gap arises when claim applications are rejected by the insurance companies based on the ground that the hospitalisation/treatment are not “medically necessary”.

Claimant survey
(Multiple answers were allowed)

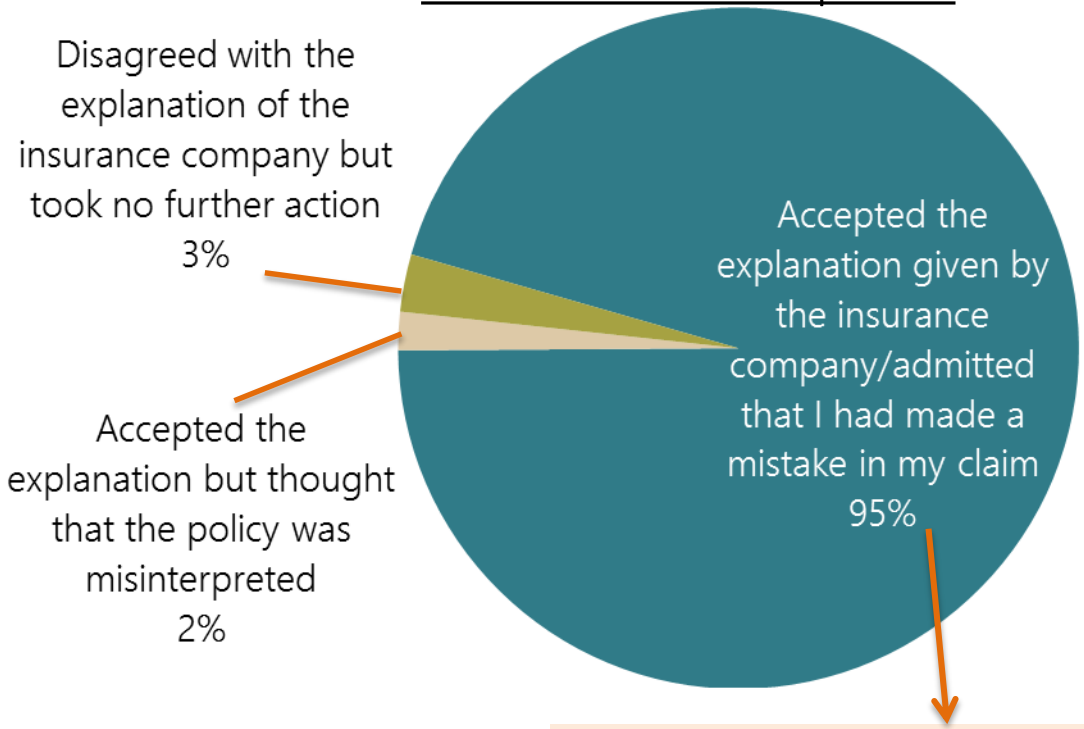
Making a claim – 54% cannot receive full reimbursement & majority accepted the explanation given by the insurance company

Among all the claimants



Reasons for not receiving full reimbursement	
Exceeded maximum claimable amount	72%
Have to pay an initial deductible	32%
Treatment was excluded	12%

How the claimants responded to the decision of the insurance companies



When filling the health declaration form :

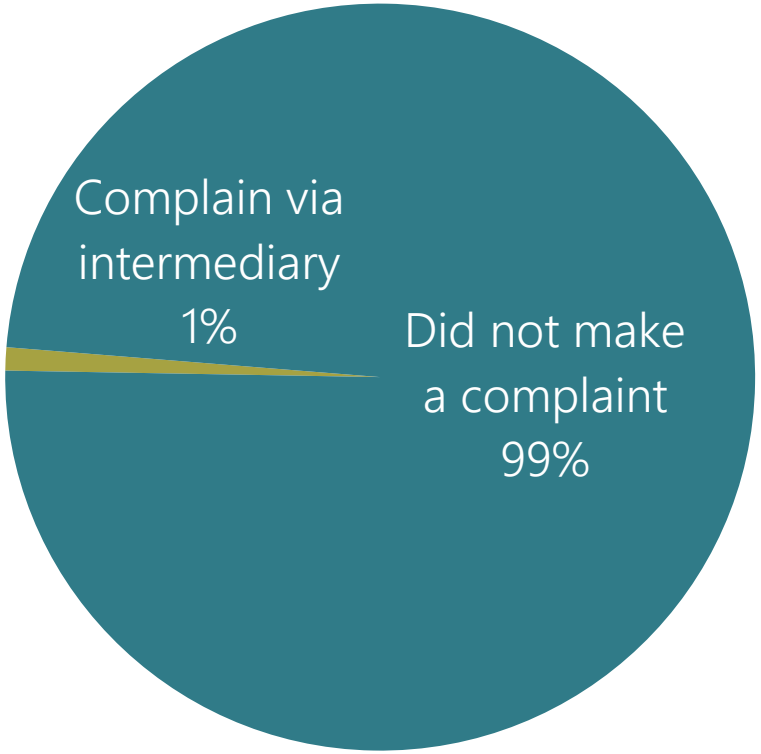
51% Relied on the intermediaries to fill in the form

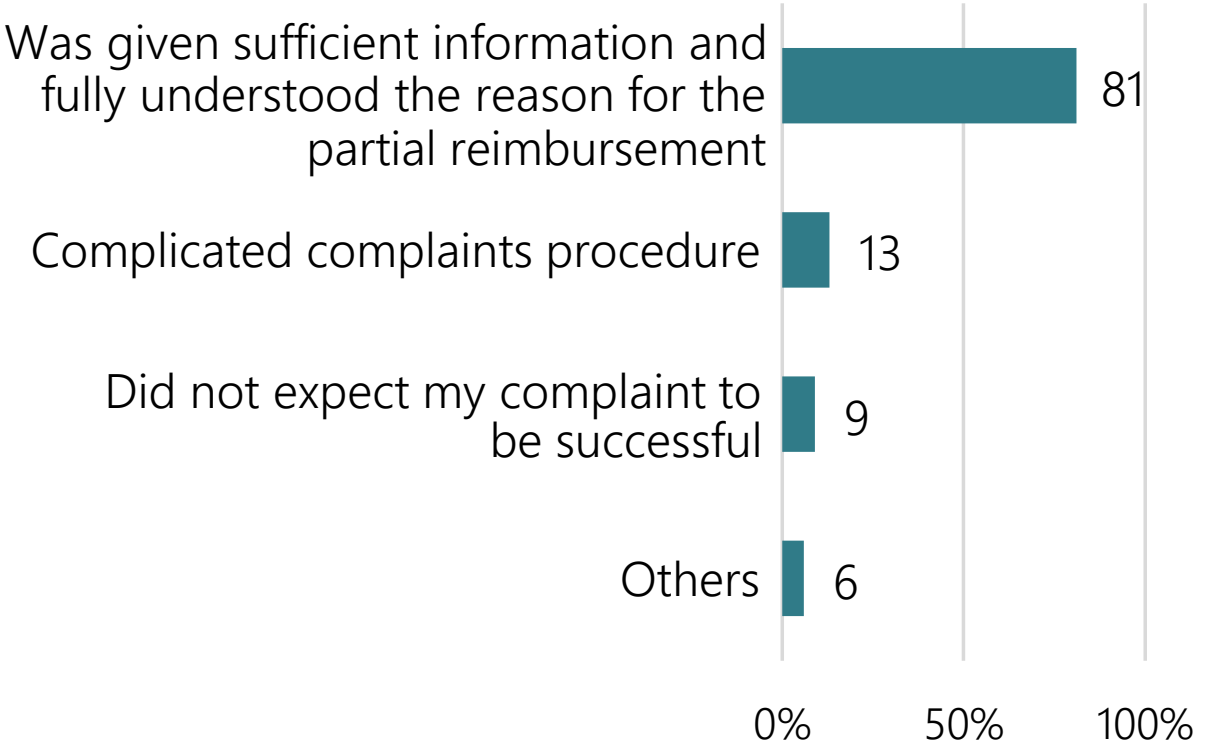
32% Relied only on their own memory

Claimant survey

(For reasons not receiving full reimbursement, multiple answers were allowed)

Majority did not make a complaint – Overall the explanation for not giving full reimbursement is accepted, but some may deterred by complicated procedure or foreseeable low successful rate





Claimant survey
(For reasons not making a complaint, multiple answers were allowed)

Consumer Vulnerability and Disputes

Complaints and case studies

Medical insurance complaints (2015 – 2018)

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Consumer Council

Nature of Complaints	2015	2016	2017	2018	Total
A Individually-purchased indemnity hospital insurance	102	62	67	68	**299**
Claim-related					
Application of policy terms	4	8	11	12	35
Non-disclosure	8	1	8	8	25
Excluded items	5	6	6	7	24
Amount of indemnity	3	3	2	2	10
Delay in claim settlement	6	6	7	9	28
Others	4	1	1	1	7
Subtotal	30	25	35	39	129
Non-claim related					
Price dispute (e.g. premium increase, premium charged without consent)	23	20	12	10	65
Quality of services	29	11	12	10	62
Sales practices	8	3	4	3	18
Variation/Termination of contract	5	2	3	4	14
Late/Non-delivery/Loss	7	0	0	0	7
Others	0	1	1	2	4
Subtotal	72	37	32	29	170
B Others *	43	34	28	22	127
(A+B) Total	**145**	**96**	**95**	**90**	**426**

* This relates to group policies, accident insurance, critical illness insurance, dental benefits, hospital cash benefits, outpatient benefits and travel insurance.

ICB

Nature of Complaints	2015 - 2018
Application of policy terms	235
Non-disclosure	223
Excluded items	185
Amount of indemnity	77
Breach of policy conditions	6
Others	22
Total	**748**

The Insurance Authority, Insurance Agents Registration Board, Hong Kong Confederation of Insurance Brokers, the Professional Insurance Brokers Association and Financial Dispute Resolution Centre do not have breakdown data on complaints related to PHI or medical insurance.

Common Grievances Stemmed From

Claim related	Non-claim related
• Gap in understanding ("medical necessary", "material non-disclosure")	• Unexpected increase in premium/loading
• Uncertainty as to judgment made on medical needs	• Imposition of excluded items
• Inaccurate information/verbal advice from insurance agents	• Policy application refusal/ termination
• Pre-existing condition waiting period was not known by consumers	• Auto-renewal/auto-transaction of premium
	• Administrative delay/poor service quality

Unexpected premium increase

Case study A

Unexpected enhanced benefits and premium vastly different from expectation

The 67-year-old complainant was informed by the insurance company that the policy terms would be changed to offer enhanced medical cover. Subsequently, upon the annual renewal date, the complainant was informed of an adjusted premium at an amount much higher than the past year. The annual premium had more than doubled over the past four years, from HK$21,280 to HK$42,880. With the Council's intervention, the complainant reached a settlement with the insurance company.

"This is outrageous because this is not a suitable policy for me anymore, and I do not have a chance to say no to the policy [changes upon policy renewal]… Also, when I bought the insurance in 2013, the reference table shown to me was materially different from the proposed charged amount even at the progressive rates taking into account of inflation and age. I have relied on that information… the premium which I am now paying is materially different to what was presented to me in 2013."

Re-underwriting after claim – Imposition of excluded items

Case study B

Imposing excluded items within effective policy dates

The complainant was admitted to the hospital due to anal polyp. During the confinement, he was asked by the insurance company to sign a revised agreement form which excluded treatments relating to anal illness (possibility due to treatment related to anal illness he received and claimed during the previous policy year). After discharging from the hospital, the complainant filed a claim application but was rejected by the company.

「他們(保險公司)已完成核保及保單已正式生效，但他們仍單方面中途提出更改……保險公司加入不合理條款而不賠，這是對消費者不公平。」

Gap in understanding (Medically necessary)

Case study C

Different interpretations of "medically necessary"

The complainant involved fell on the street and stayed in the hospital for 8 days. Despite the attending doctor declaring in-patient physiotherapy was recommended and it was not possible for the complainant to be discharged earlier, the insurance company only settled the claim for the first 3 days of hospital confinement. It stated the remaining 5 days of confinement were "not medically necessary and physiotherapy can be done as an outpatient".
After lodging a complaint to the Council, the then Office of the Commissioner of Insurance and the then Insurance Claims Complaint Bureau, the complainant obtained reimbursement of the remaining 5 days of confinement.

「保險公司漠視註冊醫生的診斷，對8天的住院理賠申請只賠償其中3天，一句沒有住院需要便拒絕賠償其餘住院日數，實在霸道無理，欺負弱小消費者，繳付多年的保費卻換不到合理的保障。」

Gap in understanding (Non-disclosure)

Consumers had filled-in what were asked in the application; not known what else are expected; claim applications rejected due to “non-disclosure”

Health questions sample

- Has any person to be insured been admitted to a hospital or received any surgery, medical advice, treatment or examination including X-ray/imaging/ ECG/ MRI/ laboratory test, etc.?
- Has any person to be insured suffer from any disease not mentioned above?

Medical advice?
How about a GP visit for a minor illness that has been recovered?

Timeframe?

Hospital?
How about A&E visits?

Respiratory system?
How about upper respiratory tract infection?

Health questions sample

- Have you ever been admitted into hospital or sanitarium, or undergone or been recommended to undergo surgery ...?
- Have you ever suffered from or been treated or do you foresee to consult with a medical practitioner for any of the following disorders or diseases?... (ii) The respiratory system (e.g. tuberculosis, asthma, chronic bronchitis) or other related symptoms/diseases?

Market and Legal Research

Review of policy contracts

- **Sample of policy contracts not easily accessible**
  - Only 4 out of 18 contracts were available on insurance companies' websites

- **Elderly consumers may have difficulty in applying PHI due to maximum entry limit**
  - Maximum entry limit commonly set as 64 to 70 years

- **Definitions of key policy terms vary among policy contracts of the same or different insurance companies**

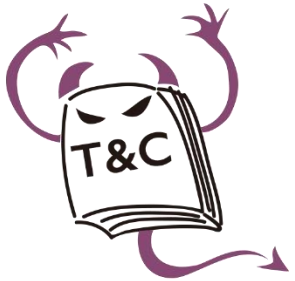
Contract sample

"Medically Necessary" is a medical service or supply, when in the Company's opinion it is consistent with generally accepted professional standards of medical practice and required to establish a diagnosis and provide treatment, which cannot be safely delivered in a lower level of medical care. Experimental, screening and preventive services or supplies are not considered medically necessary.

Contract sample

Medically Necessary – shall mean medical or health care services which are necessary and consistent with the diagnosis and customary medical treatment for the condition and recommended by a Physician or Surgeon for the care or treatment of the Disability involved and must be widely accepted professionally in Hong Kong Special Administrative Region as effective, appropriate and essential based upon recognized standards of the health care specialty involved. In no event will any of the following be considered to be necessary:

1. Confinement or Clinical Surgery mainly for the personal comfort or convenience of the insured or the Physician or any other person.
2. Confinement which the Insured's Disability could safely and adequately be treated while not confined.
3. Clinical Surgery which the Insured's Disability could safely and adequately be treated without any surgery.



- Insurance companies used different methods to limit their liability to avoid payout obligation or limit payout amounts
  - using terms such as “pre-existing conditions”, “medically necessary”, “reasonable and customary” charges

Contract sample

Pre-Existing Condition
We will not pay any benefit in respect of any pre-existing conditions or recurrence of chronic pre-existing conditions prior to the Policy Date or any date of reinstatement, whichever is later.

Contract sample

“Reasonable and Customary”
…The Company reserves the right to determine whether any particular Hospital/medical charge is a Reasonable and Customary charge with reference but not limited to any relevant publication or information made available, such as schedule of fees, by the government, relevant authorities and recognized medical association in the locality. The Company reserves the right to adjust any and all benefits payable in relation to any Hospital/medical charges which in the opinion of the Company’s medical examiner is not a Reasonable and Customary charge.

- **The contract document contains the whole agreement**
  - Commonly found in sampled contracts
  - 2 out of 18 contracts explicitly state that policyholders should not rely on representation made by agents
- **Insurance company reserves the right to make unilateral variation**
  - Such as revisions on the terms, premium and/or benefit schedule upon renewal
  - Limit policyholders to enjoy the pledged "guaranteed lifetime renewal" if re-underwriting resulted in coverage not suitable to them

Contract sample

Renewal

…we reserve the right to alter the terms and conditions, including but not limited to the premiums or exclusions of this policy at the time of renewal…
We will not be obligated to reveal our reasons for such amendments.

Review of PHI Regulations in Selected jurisdictions

Learnings for Hong Kong

Overview of measures available in the six reviewed jurisdictions

- Certainty of coverage and quality of PHI products
  - standardised level of benefits and definitions for treatments (Australia)

- Promotion of accessibility, affordability and continuity
  - coverage of pre-existing conditions, guaranteed access, renewal and portability (Australia);
  - restriction on insurance companies' right to adjust liabilities for products containing a guaranteed renewable clause (the Mainland);
  - options to switch to a more affordable plan (Singapore, for Integrated Shield Plans (IPs))

- Examination and approval on insurance clause and premium rate (the Mainland)

Overview of measures available in the six reviewed jurisdictions (Con't)

- Enhanced disclosure, transparency and choice
  - provision of standardised information sheet of product summaries (Australia); specified disclosure information (the Mainland, Singapore)
  - accessible platforms to facilitate product comparison (Australia, Ireland)
  - legislation to deal with consumer's duty of disclosure and representation to an insurance company (UK)
  - imposing a duty of good faith on the insurance companies (Canada as set out by the court)
- Cooling-off period
  - mandated: the Mainland (for long-term health insurance products), Malaysia, Singapore, the UK
  - common practice: Australia, Ireland
- New initiatives
  - categorisation of hospital insurance products, the introduction of clinical categories, the provision of switching options to policyholders for terminating products (Australia)
  - introduction of pre-authorisation framework (Singapore for IPs).

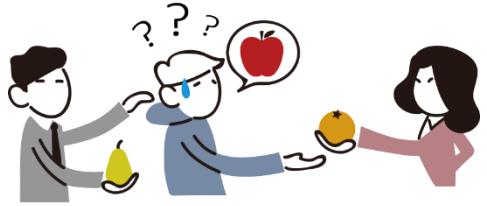
Recommendations

For enhancing accessibility, transparency, choice, affordability, fairness and continuity of PHI

From this Study, the Council identified a number of areas the PHI industry can develop to enhance consumer choice and protection.

The issues identified fall under two categories:

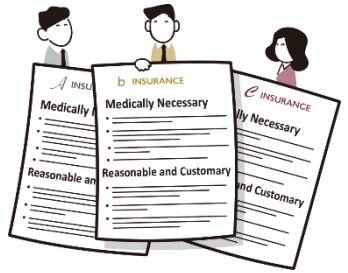
- Apparent gap between consumer expectation and the actual protection from their purchased PHIs – Narrowing it will empower consumers to make more informed choices



- Lack of continuity of PHI – Bringing continuity and certainty to PHI coverage may help promote the usage of private healthcare services and help balance the private and public healthcare demand

Closing the Gap between Consumer Expectation and the Actual Protection they have (1)

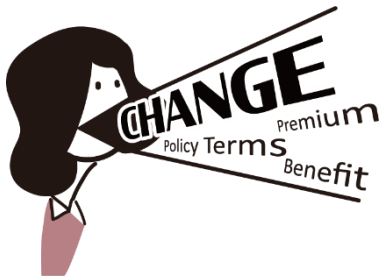
1. **Standardise definitions of key policy terms** to facilitate comparison



2. **Improve the design of application forms** to ask specific questions, to guide accurate inputs during application and to minimise possible disputes from "non-disclosure"
   - Specified illness, treatments or diagnoses
   - Specified timeframe

3. **Provide sample policies on a publicly accessible platform** for comparison before purchase
   - On insurance companies' websites

Closing the Gap between Consumer Expectation and the Actual Protection Received (2)

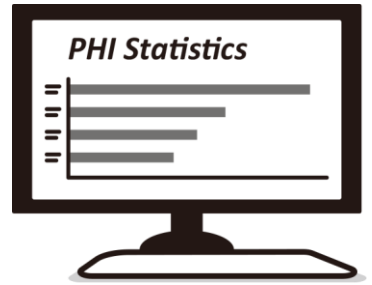


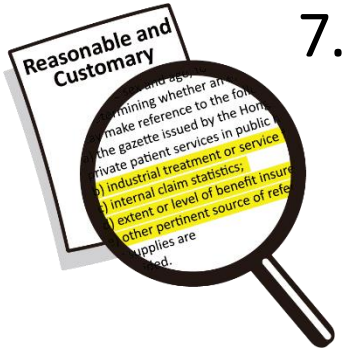
4. **Enhance transparency on change of policy terms, benefits and premiums** for an informed choice
   - Clear indication of premium increase
   - Notification on on-going basis
   - Clear explanation on data and justification with respective to the increase (e.g. medical inflation statistics)
   - The insurance company's right to re-underwrite should be made known to prospective policyholders (e.g. remark on such right be made alongside the statement of "guaranteed renewal")

5. **Provide clear explanations in writing and in plain language,** in order to facilitate consumers'/policyholders' understanding
   - Application/claim rejections
   - Claim results

Closing the Gap between Consumer Expectation and the Actual Protection Received (3)

6. **Release market and complaint statistics**, so as to enhance public understanding of the nature of complaints and development of PHI





7. **Improve transparency of sources of reference for "reasonable and customary" charges**
   - Factors to be considered should be specified in policy contracts
   - Actual factors and statistics considered in cases of partial reimbursement be disclosed

8. **Provide pre-authorisation services to elective or non-emergent treatments**, to help give policyholders peace of mind in coverage and eligibility of claims

Closing the Gap between Consumer Expectation and the Actual Protection Received (4)

9. **Enhance training of intermediaries and improve administrative processes**, to minimise disputes arising from miscommunication
   - Continuous and product-specific training
   - Effective communication
   - Clear and personalised information (e.g. medical history needed to be reported, benefit coverage and limits, exclusion items, waiting period)

10. **Strengthen consumer education to narrow the expectation gap**
    - Insurance concept
    - Significance of key policy terms
    - Information that should be obtained and understood
    - Consumer rights to request information and explanation

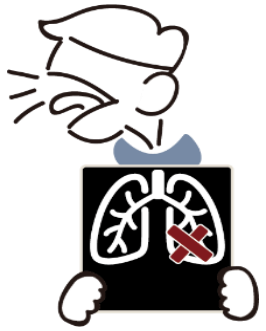
Enhancing Continuity of PHI (1)

11. **Extend the entry age limit** to promote PHI accessibility to the ageing population

12. **Offer opt-out options for non-core benefits enhancements** so that policyholders have the choice to retain budgetary status quo

Enhancing Continuity of PHI (2)

13. Provide coverage for unknown pre-existing conditions to enhance certainty of PHI protection



14. No re-underwriting after policy inception; enhance transparency of re-underwriting policy

- Should 'no re-underwriting' cannot be adopted, transparency of re-underwriting policy and conditions should be enhanced, e.g. factors that may influence re-underwriting and the possibility of a revision of terms upon renewal should be clearly specified in the policy and made known to prospective policyholders

The Way Forward

- The PHI market plays an important role in meeting the demand of the healthcare system in Hong Kong.

- A broad range of measures have to be undertaken by all stakeholders concerned to increase the fairness, transparency and quality of services of the marketplace, so as to create sustainable value to consumers.