

**Bauhinia Foundation Research Centre
International Conference on Healthcare Reform
held on 17 January 2009**

**“Developing Accessible, Affordable and
Sustainable Quality Healthcare Services”**

**Opening Address by Dr York CHOW, SBS, JP,
the Secretary for Food and Health**

Healthcare Reform Consultation and Way Forward

Mr Wu, Secretary Gao, distinguished guests, ladies and gentlemen,

First of all, let me thank the Bauhinia Foundation for this gathering of experts to brainstorm on the future of our healthcare system. Today’s conference is a perfect occasion for us to take stock of where we are and to see where we are going. We have just issued the report on the first stage public consultation on healthcare reform. And we are preparing for the second stage public consultation that we aim to initiate later this year.

2. Healthcare reform is not new to our community. It has been discussed on and off for nearly two decades. The challenges faced by our healthcare system are clear and present: our population is aging rapidly and our medical cost is rising consistently. Meanwhile, the public system is being stretched to its limits while the private sector is under-utilized, and the over-reliance on heavily-subsidized hospital care has contrasted sharply with the insufficient emphasis on primary especially preventive care in the community. Over the years, we have been searching together with the community the answer to the question: how to ensure the sustainable development of our healthcare system?

3. Previous discussions and overseas experience have shown us that the answer does not lie in simply injecting more resources into the healthcare system. We need to take a fundamental look at how we organize healthcare services and how the healthcare market operates. We need to examine how resources can be channelled to their best use in delivering healthcare that meets the needs of our population. Above all, we need to build a consensus in the community for change, as the future of our healthcare system rests with our

community's choice and our society's values.

4. We have therefore put forward in March last year a comprehensive package of reform in the document "Your Health, Your Life", and consulted the public extensively in order to identify a solution from a holistic perspective. The consultation outcomes are fruitful and encouraging. We received enthusiastic responses from a wide spectrum of the community, including many of those present here today, sharing their constructive views and more importantly showing their support and devotion to the future of our healthcare system. We attended over 150 consultations of various size and forms with different stakeholders and communities, received submissions from over 4 900 organizations and individuals, and conducted many rounds of opinions surveys.

5. So, what the community has told us about what they want in the future of our healthcare system? Let me recap the key conclusions we have drawn from this extensive first round of public consultation -

- (a) Firstly, the public strongly support reforming the healthcare system and the majority agree that there is an imminent need to do so.
- (b) Secondly, there is broad consensus and support among the public for the proposals to reform healthcare services and most look forward to their implementation.
- (c) Thirdly, two-thirds of the public agree with the need to change the way we finance healthcare. Despite divergent views on how, most agree that further in-depth discussions would be needed.

6. Let me also add that Hong Kong people care so much about their healthcare that they do not wish to see our efforts to reform long-term healthcare delivery to be hampered by short-term economic woes. After the financial tsunami, that's in the last two months, we have conducted another two rounds of survey and found that over 70% of the public think we should still press ahead with the consultation and seize precious time to continue to build the consensus for reform.

7. In short, the consultation reveals a strong public endorsement of our direction for reform, which aims towards the vision for -

- A healthcare system that puts much stronger emphasis on primary and preventive care and better health outcomes for our people.
- Secondly, a healthcare market where the public and private sectors complement with a healthy dose of competition to meet the needs of our people.
- Thirdly, a healthcare financing arrangement that reflects our societal values to sustain the long-term delivery of quality healthcare to our people.

8. So we have the answers on “what”, the remaining question is “how” - how to achieve a healthcare system that delivers all these, a system that emphasizes health outcomes with public-private co-existence and sustainable financing? The public has spoken with a clear message that they consider healthcare to be a high priority, and there is strong public support that more resources should be devoted to healthcare and government funding should continue to be the major financing source for our healthcare system. Indeed the Government’s commitment to healthcare will only increase and not be reduced – we will be making good our commitment to increase recurrent government expenditure on healthcare from 15% to 17% by 2011-12.

9. Yet given Hong Kong’s small government principle and low-tax regime, most agree that government funding alone is not going to be sufficient to meet our future healthcare needs, let alone sustaining the reform initiatives. To ensure the sustainable development of our healthcare system, the question of “how” could not be solved simply through continuing to increase public spending while passing the medical bill to taxpayers and future generations. So the most challenging task is – how best to gather and channel resources in the society to meet the increasing healthcare needs of the community?

10. It is on this question that there are still divergent views and further deliberation is needed in the community. But we are certainly not starting from scratch. Let’s begin with where the convergences are -

(a) First and foremost, the public treasures the existing accessible and equitable public healthcare system. They value our public healthcare system and believe

that it should continue to provide protection for the underprivileged and the unfortunates. Everyone agrees that a tax-funded public healthcare safety net accessible by all must be retained, and indeed should be strengthened to ensure that adequate healthcare protection is afforded to those in need. Any other financing arrangements must be supplementary.

(b) At the same time, most people prefer having their own choices of healthcare over and above the basic healthcare safety net and prefer supplementary financing arrangements that would provide them such choices. Many are already seeking healthcare from the private sector through their own means or can afford so. They are looking to the Government to provide them with better and wider choices in the market – especially more transparent and informed choices. They are also looking to the Government for incentives to do so.

(c) Thirdly, among those who can better afford to use private healthcare, there is a stronger tendency to favour risk-pooling over merely saving for their own healthcare. Many people recognize the shortcomings of existing voluntary insurance which tend to debar the sick and the elderly. Many also acknowledge that the most effective way of risk-pooling is by way of mandatory insurance. This notwithstanding, there is a general preference among the public to retain their voluntary choice in any supplementary financing arrangements.

11. What do these suggest for our way forward? I will characterize the way forward in a three-prong strategy -

(a) **Firstly, Service Reform:** With the clear public support and consensus, we will be pressing ahead with the service reform proposals. We will be working with the healthcare professions to take forward our primary care reform proposals, with the aim of bringing to the public more comprehensive and holistic primary care services that focus more on bettering health and not just curing illnesses. In doing so, consensus building, public-private partnership and vouchers will be essential tools for facilitating and incentivising the desired changes in behaviour of both patients and healthcare providers. We will also be building the electronic health record system in collaboration with the private sector as the necessary infrastructure to support these reforms.

(b) **Secondly, the Public System:** We will strengthen the role of the public

healthcare system as the safety net and reaffirm the four target areas of public healthcare services: (i) looking after the acute and emergency; (ii) the low-income and under-privileged; (iii) doing high-cost, advanced technology, multi-disciplinary, and long-term care; and (iv) training and development of professional staff. We will ensure that assistance is available to those in need especially patients requiring expensive treatments. Outcome-oriented resources allocation within the public healthcare system and public-private partnership implementing the “money-follows-the-patient” concept will be essential means for delivering more efficient and cost-effective healthcare services.

(c) **Thirdly, the Private Market:** Meanwhile, we will find means to enable better and wider choice in the private market for those who are using or can afford to use private healthcare. To do so, we need measures to promote the development of the private healthcare sector including making sites available and providing the right policies. We need to make public-private partnership a key component of our healthcare delivery, to encourage collaboration amidst healthy competition. We also need to proceed with financing reform through a step-by-step approach, considering supplementary financing arrangements that provide standardized and incentivised means for accessing choice in the private market, while catering to the needs of different age and income groups.

12. Let me elaborate further on this final prong of our strategy. While we still envisage that a long-term solution to sustainable financing rests with some form of mandatory solution (and indeed the International Monetary Fund has drawn similar conclusion in its recent review of Hong Kong’s situation), we do not believe that the community is ready for mandatory financing at this very point in time. What we would like to examine is therefore how we may take forward proposals in stages that can bring us closer to achieving a long-term solution. In doing so, our focus is whether we can have a better arrangement for the public as a whole than at present. In my mind, a better arrangement must include the following -

(a) First, the private market must be able to offer better choices to consumers in terms of both quality and price transparency. For private health insurance, for instance, it must be able to address the existing shortcomings, providing the insured with certain basic standardized, consistent and transparent terms and sustainable coverage at the very least, offering adequate protection as well as

continuity and portability, allowing the elderly and those with illnesses to enjoy affordable access as well. Moral hazards and possible abuses should be minimized. For private healthcare services, quality assurance and price transparency would be essential.

(b) Second, the arrangement must enable a large proportion of our population to access private healthcare services as an alternative choice to public healthcare. It must also be able to increase significantly the pool of people who could afford to access private healthcare. This is essential to relieve the demand on the public healthcare system and benefiting those who need to rely on public healthcare for lack of means. This condition is particularly important if incentives are to be provided through the arrangement using taxpayers' money for those who could afford to access private healthcare.

(c) Third, there must be a clear road-map for the transformation of the arrangement into a long-term sustainable solution. This would necessarily require a component that would save up to meet future healthcare needs. It would also mean the arrangement must be able to bring about certain key features that would pertain to mandatory solution such as effective risk-pooling. This is by no means an easy task but we must firmly set our eyes on the long-term sustainability of our healthcare system.

13. If I may digress a little to talk about an idea that has been mooted to provide financial incentives such as tax exemption for premium of existing private medical insurance or for medical expenses on private healthcare services. The idea is simple that it can easily capture people's mind and often on politicians' lips. Some suggest it as a possible interim solution to healthcare financing. But we need to assess this idea carefully against the above criteria.

14. If tax exemption is provided for existing private medical insurance without any regulations or pre-requisites, it would only perpetuate or even aggravate the existing short-comings of such insurance. The insured still would not get any better terms or continuity, and the high-risk groups and the elderly still could not get insured. There would also be little control over future premium hike as a result of increasing healthcare utilization and costs due to moral hazards. While it may serve the purpose of enticing more people to take out private medical insurance thereby resorting to private healthcare, there is no guarantee that these would go in the direction of relieving demands on the

public healthcare system, and more importantly, improving health outcome.

15. The situation is even grimmer with tax exemption for private medical expenses. Experience has suggested that effective healthcare financing requires some forms of pre-payment. Unqualified incentives for direct private medical expenses would only increase consumption for unwarranted healthcare services and benefit only those who are already using private healthcare services using their own money. Given the information asymmetry and lack of price transparency, the incentives are also likely to result in price inflation of medical services, rather than benefiting the patients. We have seen this in some countries already. We must take care avoid a situation that is the worst of all worlds.

16. Back to the reform. As the saying goes, Rome is not built in one day. We cannot expect reform to be successful overnight. But we now have a solid foundation upon which to launch a more focused and in-depth discussion in the next stage. Building on the outcomes of the first-stage public consultation, our challenge now is to work on the basis of what the public has told us and develop a package that would help to galvanize a consensus in the community to take forward the financing reform. No doubt we will need to create room and opportunity for more thoughtful discussions, to review our proposals and to fine-tune our plans during the process. But time is of essence, and we could not afford any more delay in reforming our healthcare system. Any further delay would only put the sustainability of our healthcare system in jeopardy.

17. Last but not least, collective wisdom and sense of ownership of the community would be indispensable for the success of the reform. Where healthcare is concerned, everyone matters. We must therefore engage the public and stakeholders in finding our solution. The private sector, be it the healthcare professions or the insurance sector, will play a crucial role in meeting the public expectations for the healthcare reform, and I like to call upon them to work together with us in delivering them. Today's conference is an opportunity for minds to meet and for ideas to brew. I am sure we all have the future sustainability of our healthcare system at our hearts, and I look forward to the heart-opening exchanges today.

18. For the discussion today, let me summarise again the four cardinal principles that I consider important for our healthcare system -

- First, the Government has commitment to ensure the system works. In other words, we have commitment to deliver and also to build an environment of healthy delivery of services. We never shed away the responsibility of overseeing, supervising as well as financing our public healthcare system. The public healthcare system is essential for a healthy community.
- Second, we must not go away without thinking what the public and patients want. We must educate the public, educate them so that they understand and have the right expectation of health outcomes, and also understand the limitation of healthcare services. They also need to have self responsibility so that they can adopt the right behaviour, both in lifestyle as well as in seeking health services. Lastly, they also need to understand the value and cost of services, so that they can contribute appropriately to the financing of the system.
- Thirdly, I refer to the healthcare providers and professions. They need to adopt a patient-centred approach, the right attitude and understand the holistic care principle of healthcare today. They need to accept there is multi-disciplinary team work required for healthcare. It is not something that can deliver usually by just one profession alone. And they need to compete for better health outcomes, professionalism and ethical practice. They also need to pro-actively establish the good “patient and doctor”, “patient and carer” relationship. This is an important part to ensure that we have a trusting relationship between the carers and the public.
- Fourth, on financing, we must ensure there is a good safety net that can take care of the disadvantaged and the needy. We have outlined the four priorities of the public healthcare system which I would not repeat. Also we must ensure that the pricing of services could be made affordable, but also with a component of co-payment so that this would diminish abuse and inappropriate use of our services. At last, we must find the sustainable healthcare financing solution for the community. We have to look at each country’s and each place’s fundamentals, and Hong Kong has always adopted a low-tax principle in our financing. So we must look at alternative way of achieving the supplementary financing.

19. So I hope that in the discussions that follow, I hope that speakers would be able to look at how the existing shortcomings can be overcome and what are the important gaps we need to fill in the coming months. I am talking about months but not years because I hope that we can make certain decisions within a short time. We might not be able to address everything in one go, but anything that we can do to get a step closer to our goal would be an achievement. I like to thank every one of you and I also take this opportunity to thank Secretary Gao for able to come to Hong Kong and share with us his vision on a much bigger reform. A reform I think would benefit the whole of China, including Hong Kong. Thank you very much.
