My **Health** My **Choice**

Healthcare Reform Second Stage Public Consultation Report

Food and Health Bureau
Hong Kong Special Administrative Region Government

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EXECUTIVE SUMMARY

INTRODUCTION

On 6 October 2010, the Government launched the second stage public consultation on healthcare reform. A consultation document, entitled "My Health, My Choice", was published to seek views from members of the public for a period of three months on the proposals to introduce a voluntary, government-regulated Health Protection Scheme (HPS).

2. The exercise was the second part of the two-stage public consultations on healthcare reform. It was a sequel to the first stage public consultation held in 2008, which sought public views, via a consultation document entitled "Your Health, Your Life", on the principles and concepts of four service reform proposals, and the pros and cons of reforming the current healthcare financing arrangements through six possible supplementary financing options.

3. There were broad support and general consensus, as revealed by the first stage public consultation, for the Government to take forward healthcare service reforms to: (a) enhance primary care, (b) promote public-private partnership in healthcare, (c) develop electronic health record sharing, and (d) strengthen public healthcare safety net. The Government has since embarked on initiatives to implement these service reforms, making use of the increased government budget for healthcare since 2007-08.

4. There were divergent views on reforming the current healthcare financing arrangements in the first stage public consultation, with no clear consensus within the community on which supplementary financing option should be pursued. Among the six options put forward, there were general reservations against options of a mandatory nature, i.e. social health insurance, mandatory medical savings accounts, mandatory private health insurance and personal healthcare reserve.

5. The community supported the public system to continue to provide essential healthcare services for those in need and serve as a safety net for the whole population, while also indicating a relatively stronger preference for voluntary private health insurance as a supplementary financing option that could provide more choices for healthcare based on individual needs, with enhanced consumer protection over the shortcomings of the existing health insurance market and private healthcare services. The HPS proposals were thus formulated for the second stage public consultation.

HEALTH PROTECTION SCHEME: OBJECTIVES AND PROPOSALS

6. The HPS is meant to complement the public system which will remain the cornerstone of our healthcare system. While taking forward healthcare reform, the Government's commitment to the public system will only increase, and not be reduced. Healthcare recurrent expenditure, totalling $39.9 billion in 2011-12, now accounts for 16.5% of the Government's recurrent expenditure, and is set to further increase as the Government has pledged to increase the ratio to 17% in 2012. The increased health budget has better enabled the public system, primarily through the Hospital Authority (HA), to improve services for its target areas, namely, acute and emergency care, low-income and under-privileged groups,

illnesses that entail high costs, advanced technology and multi-disciplinary professional team work, and training of healthcare professionals.

7. The HPS is a standardized and regulated scheme of private health insurance based on voluntary participation incorporating various features for consumer protection and promoting packaged charging for transparency of healthcare services. It is proposed with the aim to reform the private health insurance and healthcare services market for the sake of providing consumer with value-for-money choices, and improving efficiency, transparency and competition. It is a step forward in enhancing the long-term sustainability of our healthcare system and its financing, by addressing the public-private imbalance, containing cost increase and medical inflation, and encouraging savings and risk-pooling among the population to meet their future healthcare needs.

8. The HPS aims to achieve four objectives –

(a) provide more choices with better protection to those who are able and willing to pay for private health insurance and private healthcare services;

(b) relieve public queues by enabling more people to choose private services and focus public healthcare on target service areas and population groups;

(c) better enable people with health insurance to stay insured and make premium payment at older age and meet their healthcare needs through private services; and

(d) enhance transparency, competition, value-for-money and consumer protection in private health insurance and private healthcare services.

9. The HPS is proposed as a supervisory framework for private health insurance, whereby private health insurance offered under the HPS, to be provided by individual insurers and subscribed by individual consumers on a voluntary basis, must meet certain specified requirements. Proposals for the HPS comprised (a) insurance features, (b) savings options, and (c) possible incentives (see summary of the HPS proposals at ***Appendix A***).

10. Implementation of the HPS will also require taking measures to ensure the necessary supporting infrastructure is in place, including strengthening of healthcare capacity and manpower, developing private hospital and healthcare services capacity, facilitating adoption of packaged services and charging based on Diagnosis-Related Groups (DRG) in the private healthcare market, and enhancing market infrastructure and consumer protection mechanism for health insurance.

SECOND STAGE PUBLIC CONSULTATION: SUMMARY OF VIEWS

(A) Overview of Consultation

11. The second stage public consultation was conducted between 6 October 2010 and 7 January 2011, with wide publicity on the consultation through various channels including Announcements in the Public Interest (APIs), distribution of posters, summary leaflets,

pamphlets on HPS and the consultation document itself, the healthcare reform website "MyHealthMyChoice.gov.hk", and other means of publicizing the consultation exercise and the HPS proposals.

12. During the consultation period, the Food and Health Bureau consulted the Panel on Health Services of the Legislative Council which deliberated the HPS proposals at three meetings and received the views of 79 deputations. We also consulted the 18 District Councils, organized two open consultation forums for the general public, and attended many seminars, briefings and/or forums organized by different parties and organizations to brief them on the HPS proposals and to listen to their views. We have received a total of 564 written submissions, comprising 125 from organizations and 439 from individuals through various means.

13. The Food and Health Bureau has also commissioned independent consultants to conduct five rounds of public opinion surveys from November 2010 to April 2011 to gauge the views of the public on general issues concerning the HPS including its objectives, principles, concept and proposed features. We have also commissioned a market research consultant to conduct consumer market research on potential customers' reactions to proposed design of private health insurance under the HPS. We have also commissioned an academic institution to conduct opinion surveys and focus group discussions to collect views of the medical profession on specific issues.

(B) Reforming Private Healthcare alongside Public System

14. There was broad support for the direction of the healthcare reform to enhance the long-term sustainability of the overall healthcare system, namely, maintaining and strengthening the public healthcare system providing equitable access to essential healthcare and serving as a healthcare safety net for the whole population, complemented by reforming the private health insurance and healthcare markets with a view to providing value-for-money choices of health insurance and healthcare services with quality assurance and consumer protection.

15. Most submissions underlined the importance for the Government to remain fully committed to supporting the public healthcare system, and welcomed the pledged increase in funding for public healthcare services. Many supported continued increase in public healthcare funding to cater for the ageing population. At the same time, many noted that over one-third of our population had some form of health insurance coverage, either through their employers or purchased on their own, and private expenditure on health insurance and healthcare services especially private hospital care was growing rapidly, indicating the increasing role of the private healthcare sector.

16. A majority of views considered that our healthcare system required not only a strengthened public system as its core, but also a complementary, competitive and transparent private system providing more value-for-money choices for members of the public. Public opinion surveys showed that about 70% of the survey respondents agreed that the Government should encourage a wider use of private services by those who could afford it, so that the public sector could better focus on serving its target areas. Notwithstanding this, a

small number of submissions considered that the Government should focus its efforts and resources solely on improving the public system alone.

(C) Regulation of Private Health Insurance and Healthcare Sectors

17. There was general consensus for strengthening regulation over private health insurance and healthcare services in the process of reforming the private healthcare markets. An overwhelming majority of views received pointed out the existing shortcomings in market practices, including insufficient pricing transparency, escalating private medical expenses, itemized charging with no certainty of payment upfront, restrictive insurance policy terms such as limited access to health insurance by high-risk individuals, increase in premium or even unilateral termination of policy after claims, etc.

18. Public opinion surveys showed consistent support with around 90% of survey respondents in favour of stepping up regulation over private health insurance and healthcare services. On the other hand, while recognizing the need for supervision, there were views from private insurers and healthcare providers cautioning against excessive regulation, pointing out that the market should best be left to operate with minimal necessary intervention by the Government. They also pointed out that the feasibility and desirability of some of the proposals for regulation would need to be further examined.

(D) Health Protection Scheme (HPS): Objectives and Concepts

19. A significant number of views received considered that the proposed HPS was a positive step forward to enhance transparency, competition and efficiency of the private healthcare sector. They were cognizant of the problems confronting the private health insurance and healthcare services markets, and considered that changes were required to make better and fuller use of the private sector. They supported the Government's objectives for introducing the HPS to provide value-for-money choices to the community. They concurred that this would complement service reforms, indirectly provide relief to the public system, better enable the public system to focus on serving its target areas, and enhance the long-term sustainability of our healthcare system in the face of ageing population and rising medical costs.

20. The support for the HPS as a tool for reforming the private healthcare markets was also reflected in the outcome of the public opinion surveys. About 70% to 80% of survey respondents supported the various stated objectives of the proposed HPS, and more than 60% of the respondents were in support of the introduction of the proposed HPS, as a means to strengthen regulation over the private sector to enhance transparency, competition and efficiency. There is also considerable support for the objectives of the HPS among the medical community, as revealed by the findings of the medical stakeholders opinion survey, with about 60% of responding doctors agreeing with the objectives of the proposed HPS.

21. A small but not insignificant proportion of views received, while supporting strengthened regulation of the private healthcare sector, cast doubt on whether the proposed HPS could achieve its stated objectives, especially in relieving pressure on the public system.

This stemmed mainly from concerns over the infrastructural support of the healthcare system, including issues such as capacity constraints of private hospitals and healthcare services, supply constraints of healthcare manpower, and possible "brain drain" of the public system. They also questioned the appropriateness of using public funding to subsidize members of the public subscribing to private health insurance, as opposed to using the funding to subsidize healthcare through the public system.

(E) Proposed HPS Features: Views and Suggestions

22. A large number of views and suggestions were received on the proposed features of the HPS, including insurance features for enhancing consumer protection; options to incorporate savings in health insurance; financial incentives and use of $50 billion earmarked from fiscal reserve; and insurance benefit coverage and levels, with DRG-based packaged charging. Most expressed support to the objectives and concept of the proposed HPS, while urging the Government to look into their feasibility and desirability in greater detail in consultation with the relevant stakeholders and having regard to the wider community views, with a view to improving the design of the HPS (see summary of views on individual features of the HPS proposals at ***Appendix A***). Major views on key HPS features, especially those that attracted contentions, are highlighted in the following sections. For details of views on other HPS features largely supported during the consultation, please refer to the main consultation report.

(i) Insurance features for enhanced consumer protection: the core requirements

23. There was wide support for the proposed insurance features aiming at safeguarding consumer interests and enhancing consumer protection, including guaranteed access and renewal, plan portability, standardized policy terms and conditions, age-banded premium schedule with guidelines on premium adjustment, etc. Public opinion surveys indicated that the various consumer protection features of the HPS, which are proposed to be core requirements that all health insurance are required to meet under the HPS, received support from around 70% to 80% of the survey respondents. There are, however, greater divergences over the following features –

(a) **Guaranteed access and renewal**: most of the views received supported enabling high-risk individuals with pre-existing conditions to access health insurance under the HPS with reasonable waiting period and affordable premium loading through regulation and subsidy; but others considered inclusion of high-risk individuals, even with premium loading, might be unfair to healthy individuals subscribing the insurance and might undermine viability of insurance pools.

(b) **Premium setting and adjustment**: many views considered that there should be government control over premium setting and adjustment, and supported consideration of control measures such as cost/price control, premium/profit regulation and/or direct provision of health insurance or healthcare services; but the insurance industry considered that government direct control over premium would stifle competition and undermine viability of insurance pools.

(c) **Limit on entry age**: many views agreed that allowing individuals to start subscribing health insurance at very old age might undermine viability of insurance pools, especially if pre-existing conditions were also to be insured after a certain waiting period, and that imposing an entry age limit (say 65) might serve the purpose of risk management; but a number of submissions expressed concerns that the proposed age limit would affect the choice for those at older ages.

(d) **Offer of no-claim discount**: many views supported the proposal of offering no-claim discount as a reward for those who stayed healthy and an incentive for the healthy to stay insured; but some questioned whether it was necessary and appropriate to put in place no-claim discount under the HPS, as subscribers might avoid early treatment or fall back on the public system in order to preserve their no-claim discount, and others questioned its feasibility in practice.

(e) **Migration of existing health insurance**: many views pointed out that migration of those currently insured on existing health insurance would be essential in building up a critical mass of insurance pools and ensuring the viability of the HPS, and measures should be introduced to prevent insurers from arbitraging between HPS plans and non-HPS plans; but the insurance industry considered that insurers' participation in the HPS should remain voluntary.

(ii) Options to incorporate savings in health insurance

24. Unlike other issues, the proposed savings options for health insurance under the HPS attracted relatively fewer discussions and submissions. Among the views received, some considered it desirable to have savings incorporated into the HPS to finance future premium, while others considered that savings were too long-term and its restricted use might not be welcome. The insurance industry considered that the inclusion of a mandatory savings feature might reduce attractiveness and complicate operation of health insurance under the HPS. Some respondents considered that, instead of offering public subsidy to encourage savings, other more direct forms of incentives such as premium rebate or service subsidies should be considered.

25. Among the broader views received, there was general recognition of the need to address the long-term financing of our healthcare system. While some appreciated the rationale for proposing savings options under the HPS, many respondents suggested that other options to cater for financing future healthcare should be considered, for instance the Government setting aside funding specifically reserved for meeting healthcare needs of the ageing population. Among those respondents who expressed doubts on providing public subsidies under the HPS, some suggested setting up such a reserve fund specifically for funding future public healthcare services.

(iii) Financial incentives and use of $50 billion earmarked fiscal reserve

26. Among the various proposed features of the HPS, the proposal to provide financial incentives for those who subscribed to health insurance plans under the HPS, making use of the $50 billion earmarked in the fiscal reserve in support of healthcare reform, attracted the

most divergent views during the consultation. Not only were there views on each of the proposed financial incentives under the HPS, but there were also suggestions for other forms of financial incentives for private health insurance and healthcare services. There were also views concerning the general principle of using public funding to provide subsidies for those who subscribed to private health insurance and utilized private healthcare services, and the use of the earmarked $50 billion for other healthcare-related purposes.

27. There were views supporting provision of financial incentives under the HPS, considering that those who chose private healthcare over public healthcare should also get a fair share of public subsidies for their healthcare. Different views were received towards the three forms of financial incentives under the HPS proposed in the consultation, though most stressed that public subsidies should benefit HPS subscribers direct, as opposed to private insurers and/or healthcare providers –

(a) **Protection for the high-risk**: notwithstanding the divergent views over allowing high-risk individuals to join health insurance, many recognized that if high-risk individuals were to be included in the health insurance pool with cap in premium loading, some form of injection would be required to compensate for the increased risk they brought to the pool. Most considered public funding support for this group necessary and justified, though some questioned how this could operate in practice and whether insurers would benefit unduly from arbitrage.

(b) **Premium discount for new joiners**: among those who were in support of the HPS, most supported providing incentives to encourage participation in the scheme, most notably premium discount to boost up subscription at the initial stage. They considered such incentives needed not necessarily be permanent, and the $50 billion could be used as seed money to generate return for providing such incentives on a self-sustaining basis or extend the period for providing such incentives. There were also different suggestions on the incentive design.

(c) **Subsidies for savings for future premium**: echoing the views over the proposed savings options, most respondents who supported incentives for staying in the scheme favoured premium rebate for long-staying subscribers after age 65. Many noted that these proposed incentives would require significant financial commitment, and that the $50 billion would not be able to provide the proposed rebate on a perpetual basis. They suggested that the Government should commit to provide further funding as and when needed.

28. Meanwhile, some queried if financial incentives for private healthcare should be confined to those population groups as proposed through health insurance under the HPS. Suggestions were made for other forms of financial incentives under the HPS, or more generally subscription of private health insurance and utilization of private healthcare services. These included, for instance, premium subsidies to encourage children to enrol, premium subsidies for the older age and high-risk who need to pay a higher premium, premium subsidies for the lower-income and underprivileged groups who were less able to afford health insurance, tax deduction for private health insurance premium, direct subsidies for healthcare services through public-private partnership, direct subsidies to induce primary

preventive care, and direct reimbursement for private health services.

29. On the other hand, some questioned whether it was necessary and appropriate as a matter of principle to provide public subsidies to those who subscribed to private health insurance and used private healthcare services, noting that these subscribers were usually those who could afford to pay and fearing that private insurers and healthcare providers would reap most of the benefits. Some considered that the $50 billion should be used equitably for subsidizing healthcare for the whole population. Some opposed the use of the $50 billion to provide financial incentives under the HPS, considering that public funding should more appropriately be directed to help those relying on the public system. Specifically, some suggested using the $50 billion to set up a reserve fund for financing public health services to cater for the ageing population in the future.

(iv) Insurance benefit coverage and levels, with DRG-based packaged charging

30. Many appreciated that the HPS Standard Plan, which was intended to represent the core requirements for all health insurance, must be confined to basic benefit coverage and levels. Most respondents agreed with the proposal to include hospitalization, ambulatory procedures and chemotherapy and radiotherapy for cancers in the basic coverage, to provide targeted protection for unanticipated and expensive treatments at general-ward level, with options to purchase top-up for better amenities and coverage. Many were receptive to the argument that the basic coverage should be confined to less discretionary services to contain moral hazards, whereas more predictable, discretionary and affordable healthcare needs should be covered by add-ons to allow flexibility and keep down the premium of the HPS Standard Plan.

31. Given that the proposal to design the benefit levels of the HPS Standard Plan around packaged services and charging based on DRG is a novel idea in Hong Kong, it generally took time for respondents to understand the proposal and respond with their views. Many respondents who welcomed the proposal considered that it would help address concerns over rising medical costs in the private sector, uncertainty over payment beforehand, and lack of pricing transparency. However, there were concerns on whether packaged services and charging would be feasible in the local market, especially when some private hospitals and doctors had expressed doubts on the market's readiness to offer such.

32. Some considered that the HPS could be improved by including primary care services. For those advocating the inclusion of primary care, many did not touch on how to address the issue of moral hazards, and the likely significant impact on premiums due to high utilization and administration costs. Some respondents suggested the inclusion of maternity coverage to attract young couples, though few recognized that such coverage would likely increase the premium significantly and induce serious adverse selection. A few also asked whether the HPS could be extended to cover treatments in places in the proximity to Hong Kong, in particular provinces or cities in the Mainland where many Hong Kong people resided.

(F) Supporting Infrastructure for HPS

(i) Private hospital capacity and healthcare manpower supply

33. Private hospital capacity and healthcare manpower supply were the recurring and dominant theme in a vast majority of submissions received during the consultation. Most expressed the view that no matter how carefully and meticulously the HPS was designed, its success depended on having a robust supporting infrastructure for the healthcare system, in particular an adequate supply of healthcare manpower and sufficient capacity among the private hospitals to meet the increasing demand for private healthcare services including those arising from the implementation of the HPS, apart from rising service demand in the public healthcare system as the population demographics aged.

34. Many considered that private hospitals were currently running at near full capacity, and an expansion in private hospital capacity, in particular the provision of standard beds offering packaged services and charging, would be needed to cater for increasing demand for private healthcare services including those from health insurance under the HPS. Many noted that four pieces of land had been earmarked for private hospital development with required ratio on the provision of standard beds, and that some private hospitals had proposed or were planning further development to expand healthcare capacity. Some pointed to the need to carefully assess and plan private hospital and healthcare services capacity to ensure sufficiency over the long-term, taking into consideration the impact of the HPS as well as other sources of demand including development of Hong Kong's healthcare industry. Some went further to suggest that the Government should consider providing private services in a more direct manner, such as supplementing private services offered by HA.

35. Many stressed that having a steady and adequate supply of healthcare manpower was instrumental to the sustainability and well-being of the overall healthcare system, as well as the development of healthcare services. While noting that the intake of medical students at the two medical schools had been increased to 320 per year from the 2009/10 academic year and that the Government would closely monitor the manpower situation, many urged the Government to take more proactive measures to increase supply of healthcare manpower, both in the near and long term, including expanding the training of local healthcare professionals and enabling more non-locally trained healthcare professionals to practice in Hong Kong subject to the same stringent quality and professional standards. Some submissions from the medical profession expressed different views and considered that doctors in the private sector could be made more productive to absorb increased demands if more beds were available in private hospitals, and more detailed assessment on manpower needs would be required.

(ii) Professional development, quality assurance and supervisory framework

36. In connection with healthcare capacity and manpower, a number of submissions also pointed to the need to put greater emphasis on professional development of healthcare professions and quality assurance of healthcare services, so as to maintain the edge Hong Kong's healthcare system in its high professionalism and renowned quality of medical

services. To this end, some submissions suggested that the current training and development as well as regulatory framework of the various healthcare professions be reviewed with a view to further strengthening their professional development and standards. Some submissions considered that at the very least, the Government should take a more active role in ensuring service and price transparency of private healthcare services. Other submissions referred to tools adopted in other economies for assessing quality of healthcare services, such as hospital accreditation, clinical review and service benchmarking, and proposed their consideration for adoption in Hong Kong for quality assurance.

37. Most of the views received on this front considered it important to put in place a rigorous supervisory framework for the HPS, including a robust institutional framework for the governance and operation of HPS, and administration of the dispute arbitration or mediation mechanism. They pointed out the need for the framework to safeguard consumer protection, both to address shortcomings in existing private market practices and to inspire public confidence in the HPS. Some considered that an enhanced supervisory regime backed up by a legislative framework would benefit the long-term development of the healthcare system by improving transparency and efficiency as well as promoting healthy competition in the system. Some pointed out that an effective institutional structure for the supervision and governance of HPS would be essential.

38. Noting that HPS would encompass both Standard Plans and those with top-ups or add-ons over and above the Standard Plan requirements (HPS-plus plans), some expressed concerns that regulation of HPS-plus plans might not be as stringent as that over Standard Plans, thus giving rise to potential complaints by consumers with HPS-plus coverage. Some respondents including those from the insurance industry pointed out that some of the proposed HPS features would require more thorough examination and deliberation on their desirability and feasibility from a technical perspective, before workable legislative proposals could be formulated for the HPS supervisory framework. There were also views cautioning against over-regulation, and that HPS should more appropriately be subject to the existing regulatory regime as far as possible, rather than the supervisory framework as proposed in the consultation document.

(iii) Provision of DRG-based packaged services and HPS health insurance

39. A number of submissions expressed concerns over the HPS which stemmed from doubts about future availability of packaged private healthcare services and charging based on DRG, and private health insurance plans based on the HPS specifications. This was especially so when some private hospitals and doctors suggested that the current private healthcare market might not be entirely ready to adopt DRG-based packaged services and charging, citing reasons, among others, such as the fact that the majority of hospital admissions were handled by visiting doctors at patients' choice, and technical difficulties in arriving at one single packaged charge catering for different possibilities of complication for the same diagnosis. Constraints in private hospital capacity and healthcare manpower supply were also cited as major obstacles.

40. Participants from medical professions in focus group discussions held mixed views on the potential of DRG in improving competitiveness and cost control and the technical

feasibility of applying DRG in healthcare settings. Some noted that the application of DRG was quite popular in other countries and had positive effects on transparency and competition in healthcare services quality and pricing. Others were more cautious as to applicability of overseas experience to Hong Kong. A number of participants suggested that medical stakeholders should be closely involved in designing and implementing the DRG-based charging system in future. There were also suggestions that the Government should provide the necessary infrastructure and administrative support required for adopting DRG-based packaged services and charging.

41. Meanwhile, some submissions from the public supported more direct measures to be taken by the Government to encourage and ensure supply of DRG-based packaged services and charging, apart from the proposal for the provision of standard beds in the development of new private hospitals on the four pieces of land earmarked for such. These suggestions included, for instance, entering into partnership with private healthcare providers to provide DRG-based packaged services and charging. Some went further to suggest that the Government should consider providing DRG-based packaged services in a more direct manner, including direct provision through HA, to supplement the private sector capacity. Public opinion survey showed that 75% of the respondents considered that direct government provision of private services should be pursued, in the event of insufficient supply of services with packaged services and charging from private healthcare providers.

42. The insurance industry, while cautiously welcoming the Government's proposal to introduce the HPS, stressed that offer of health insurance plans under the HPS or not should remain a voluntary business decision by individual insurers. They considered that over-demanding requirements under the HPS would likely dampen interests of insurers to participate in offering health insurance under the HPS, especially when many insurers were already having substantial and increasing share of the health insurance market. The insurance industry also expressed the view that the HPS Standard Plan was unlikely to be profitable given the likely stringent requirements and control. Some insurers had reservations on the Government involvement in the provision of health insurance under the HPS, whereas others were not opposed to the idea on the assumption that such provision would be on a competitive basis on a level-playing field vis-à-vis other market participants.

(G) HPS: Potential Risks and Possible Mitigations

43. Many respondents drew attention to the potential risks that might undermine the feasibility of HPS and its likelihood to achieve the stated objectives, and suggested that possible actions be taken to mitigate the risks –

(a) ***Lack of a large and balanced risk-pool***: the viability of the HPS depended on building such a pool. Some suggested focusing efforts to induce large employers to migrate the insurance plans for their employees to the HPS in order to build up a critical mass. Other suggested a combination of carrot and stick, providing incentives to attract individuals especially young and healthy lives to join, while putting in place measures to minimize adverse selection.

(b) ***Lack of interest from private insurers and healthcare providers***: the HPS depended

on the participation of private insurers and healthcare providers. Many suggested taking measures to guard against cream-skimming by insurers and healthcare providers vis-à-vis the public system. Some further suggested that the Government should assume a more active and direct role, including direct provision of HPS plans and DRG-based packaged services on a level-playing field with other market participants.

(c) ***Lack of control over premium escalation and medical inflation***: many pointed out the need for strong and concrete measures to provide the public with reassurance of control of future premium increase under the HPS, and that medical inflation in the private sector could be contained. Many supported considering necessary government intervention to ensure that health insurance premium and healthcare service charges remain at affordable levels.

(d) ***Read-across implications for the public system***: some were concerned that the implementation of the HPS would cause brain drain in the public system if manpower supply was in shortage, and if so, those relying on the public system would suffer, and public support for the HPS would wane. They considered that the Government would need to reassure the public of its commitment to public healthcare and ensure healthcare protection to those who relied on the public system.

(H) HPS: Implications for Long-Term Healthcare Financing

44. Views received from a number of respondents considered that the HPS represented a positive step forward in addressing the challenge to the sustainability of the healthcare system, though in itself not a complete solution to the problem of long-term financing for healthcare given its voluntary nature. It would make a start to harness the private sector to meet the increasing healthcare needs of the community, and alleviate the burden on the public system through enhancing private sector capacity. Continued government investment in the public system would still be required, but the introduction of the HPS would likely make the private sector better positioned to share part of the increasing demands alongside the public system, thereby helping to enhance the sustainability of our healthcare system and its financing. Some expected the HPS could help improve the efficiency and cost-effectiveness of the private healthcare sector which is also conducive to the sustainable development of our healthcare system.

45. However, some respondents, notably those who considered that the Government should focus solely on funding and improving the public healthcare system alone, were dismissive or at best sceptical of the potential benefits of the HPS. They expressed concerns that, without expanding the supporting infrastructure of the healthcare system including service capacity and manpower supply, the HPS might drive up medical inflation and end up compounding the financing problem rather than alleviating it. In particular, they did not see any need for the Government to devote resources to reform the private healthcare market through the proposed HPS, for the reason, among others, that the resources should better be spent solely on public healthcare services.

WAY FORWARD

46. The second stage public consultation on healthcare reform proves to be a productive exercise. There was wide dissemination and discussion of healthcare reform messages, information and proposals within the community. We are encouraged by the quantity and quality of views and submissions received during the consultation, and would like to take this opportunity to express our sincere gratitude to all those who have made a contribution in the process, including activity organizers, attendees at the various forums/seminars/meetings, and those who have made known their views to us, be it at forums, in writing or through responding to surveys and participating in focus groups.

47. The views and suggestions collated from various channels through the consultation have provided us with much food for thought. Together, they lay the foundation on which we could build momentum and move forward. Having studied and analyzed the views received, we consider that what we should do in future should be guided by the following –

(a) the consultation outcome reaffirms the broad-based community support for the Government's healthcare reform vision of developing our dual healthcare system, with a public system continued to be strengthened as its core, complemented by a competitive and transparent private sector;

(b) there is overwhelming public call for strengthening supervision and regulation over private health insurance and healthcare services, amidst rapidly increasing insured population and private healthcare expenditure, to address current shortcomings that undermine the long-term sustainability of the private sector;

(c) there is support for the Government to take forward the proposed HPS with the aims of providing value-for-money choices to members of the public, improving competition, transparency and efficiency of the private sector, and relieving the pressure on the public sector so as to better focus on serving its target areas;

(d) the success of the HPS depends very much on strengthening the supporting infrastructure for the healthcare system, most crucially healthcare manpower supply and private healthcare capacity, and putting in place the supervisory framework and institutional governance to ensure the objectives of HPS are met;

(e) the HPS features – e.g. underwriting, portability, plan migration, standardized terms and conditions, and the modus operandi of the high-risk pool – require further examination and deliberation in consultation with relevant stakeholders to thrash out details that are feasible, practicable and, where possible, desirable;

(f) efforts should be made prior to HPS implementation to facilitate development of the healthcare service market so that insurers and healthcare providers are better prepared and equipped to provide services that are in line with the principles and requirements of the HPS in preparation for its implementation; and

(g) there should be put in place engagement platforms on which stakeholders are represented and through which communication and deliberation could be made to

forge maximum consensus while respecting differences in views and stances in the course of developing concrete proposals for implementation.

48. Having regard to the above-mentioned considerations, we propose that the HPS be taken forward over the next two years (i.e. from second half of 2011 to first half 2013) for implementation through the following three-pronged action plan, viz. -

(a) **Review healthcare manpower strategy:** to conduct a strategic review on healthcare manpower planning and professional development including the regulatory structure of various healthcare professions, to be guided by a high-level steering committee comprising renowned overseas experts and local members of the professions, with the aim to formulate plans to strengthen manpower supply and professional qualities to meet future needs, both near-term and long-term;

(b) **Formulate supervisory framework for HPS:** to formulate legislative and institutional proposals to establish a feasible supervisory framework for health insurance and healthcare service markets under HPS, to be steered by a Working Group on HPS comprising relevant stakeholders to be set up under the Health and Medical Development Advisory Committee (HMDAC), with the aim to set up a statutory authority for HPS and to propose any financial incentives in support of the objectives of HPS; and

(c) **Facilitate healthcare service development:** to facilitate the development of the healthcare services industry as an integral part of our healthcare system in preparation for HPS implementation by taking measures to –

(i) develop essential infrastructure to support healthcare services (including private hospitals development and information infrastructure for health insurance and healthcare services);

(ii) enhance the transparency and competition of healthcare services in the private sector in quality and pricing (including benchmarking of services and charges); and

(iii) promote packaged services and charging through purchasing of common healthcare services from the private sector (including packaged charging for diagnosis- or procedure-based services).

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Health Protection Scheme

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