

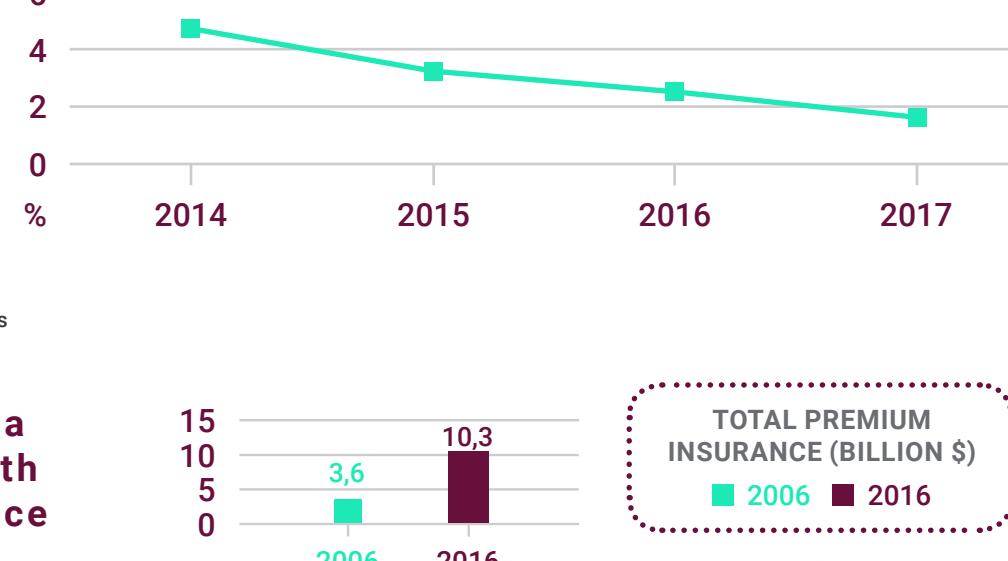
The HK insurance health market is growing, driven by increasing private healthcare demand

- 3 FACTORS**
- Growing and ageing population
 - Growing health consciousness
 - Increased affluence in society

Over the past years, a drastic inflation of healthcare costs has been observed in Hong Kong due to these 3 factors

PRIVATE MEDICAL INSURANCE INFLATION HK: 2014-2017

2nd most expensive location in the world



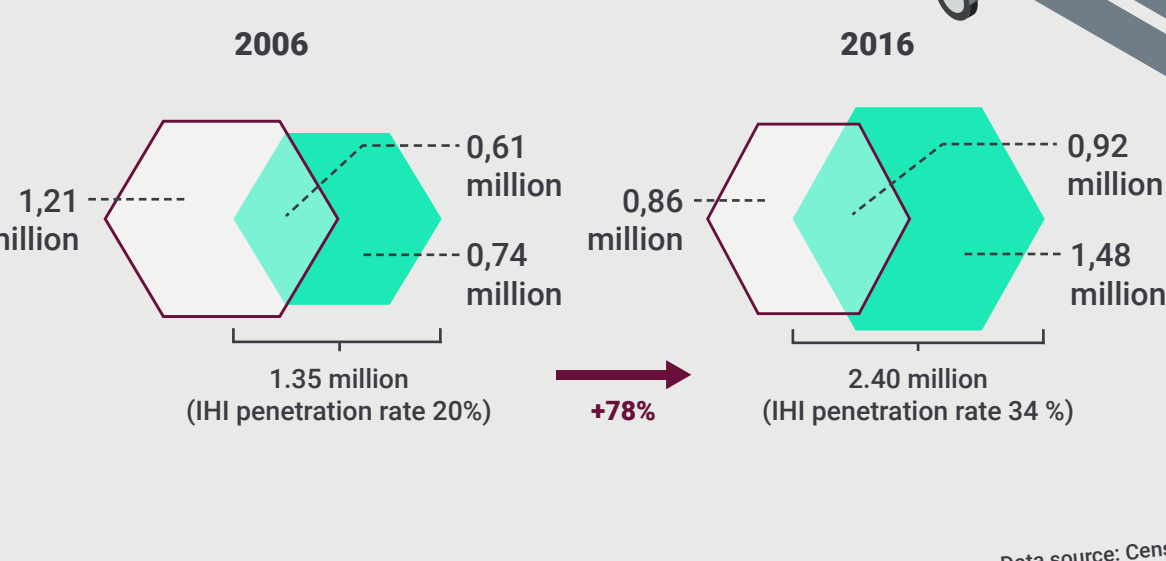
Together with a significant growth in health insurance premiums



TOTAL PREMIUM INSURANCE (BILLION \$)

Data sources: Hong Kong Federation of Insurers

In particular, the growth of Individual Health Insurance (IHI) has been robust, with a switch of insurance consumption from Group Health Insurance (GHI) to IHI



159 Insurers on the market

- Number of people covered by group insurance
- Number of people covered by individual insurance

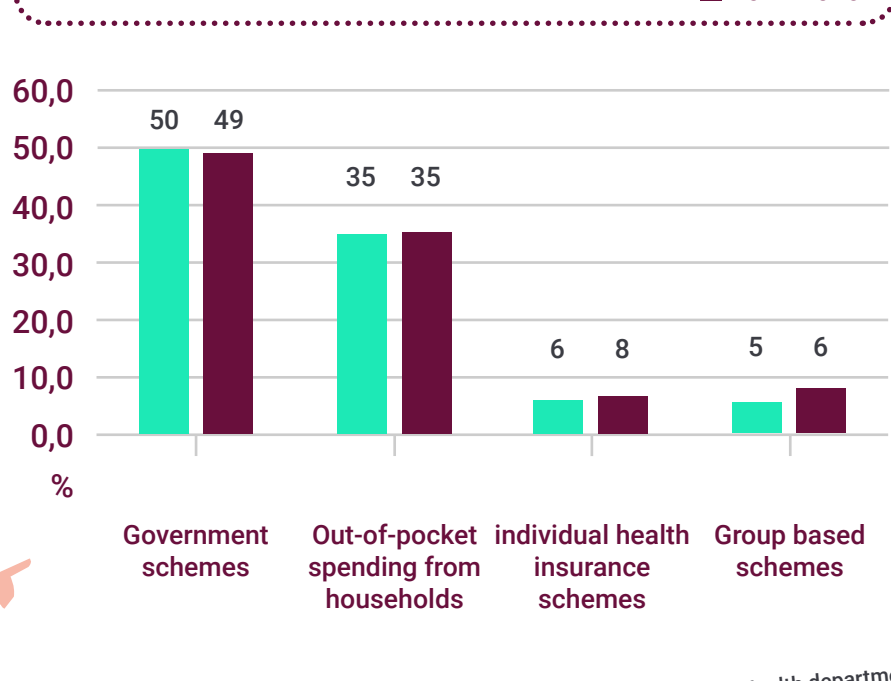
Data source: Census and Statistics Department. Side note: IHI stands for Individual Health Insurance

The diversion effect in the overall healthcare industry financing being limited, total healthcare costs are far from being covered by insurers

OVERALL HEALTH EXPENDITURES



PERCENTAGE SHARE OF CURRENT HEALTH EXPENDITURES

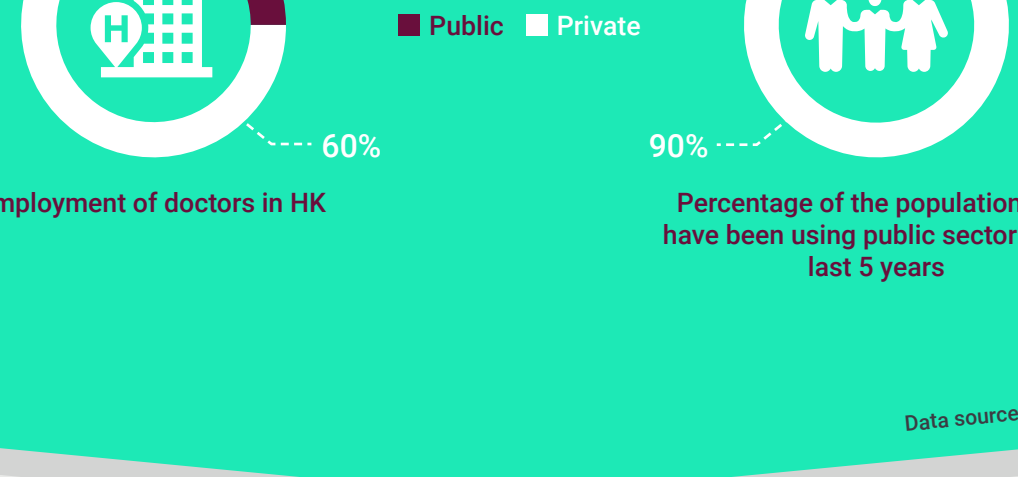


Source: Food and Health department

This situation congests the public healthcare system

ACCESSIBLE AND AFFORDABLE PUBLIC HEALTHCARE SERVICES

DECREASED LEVEL OF SATISFACTION AMONG THE PUBLIC



Data source: Food and Health Bureau

To relieve the pressure, the government launched the Voluntary Health Insurance Scheme (VHIS)

- Fostering synergies between the public and private sectors
- By improving the accessibility, quality and transparency of hospital insurance
- Release resources for the public sector in order to enhance quality

MINIMUM PRODUCT REQUIREMENTS

- 2 types of certified plans: **Standard Plans** (basic protection) & **Flexi Plans** (enhanced benefits)
- Ten minimum requirements are laid down for better consumer protection

ESTIMATED ANNUAL PREMIUM

Average Standard Plans was reportedly around HK\$4,800 initially, such premium could exceed HK\$5,000 in 2019. This is noticeably higher than the average annual premium

TAX DEDUCTION OF HK\$8,000

Annual tax deduction of up to HK\$8,000 will be provided for premium paid by each insured person and his/her dependents

VOLUNTARY APPROACH IN REGULATION

Health insurers are not mandatorily required to issue Certified Plans to consumers

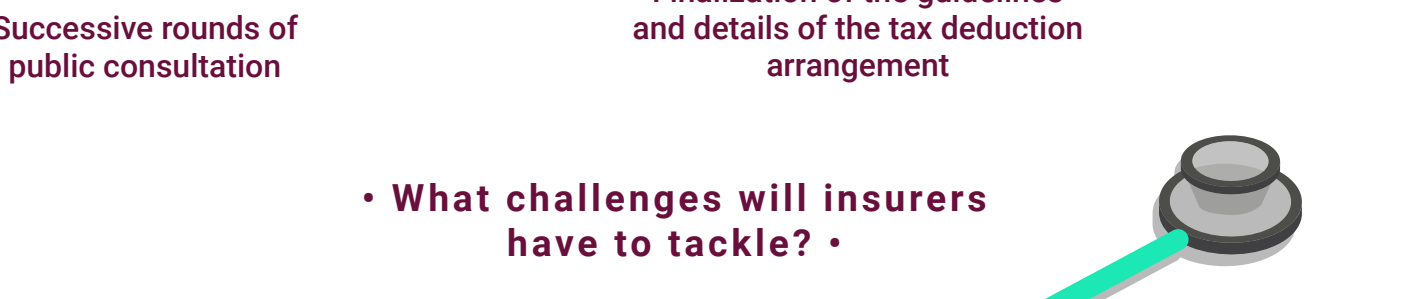
MINIMUM PRODUCT REQUIREMENTS

FHB will set up a VHIS office to certify VHIS-compliant products and engage key stakeholders



Data source: <https://www.vhis.gov.hk/en/home/index.html>

History and agenda of VHIS



What challenges will insurers have to tackle?

Volatility is going to increase as some customers will not renew their policies to benefit from the VHIS opportunity, insurers should be:

- Competitive and ready with launched certified product to appeal new customers
- Innovative in order to appeal and retain customer by offering disrupting services

- FIRST ENTRANT**: Being an early bird is crucial in how the new offer is setup
- REGULATION**: New product has to fit all requirements in order to be certified by VHIS office*
- MANAGEMENT OF ADMINISTRATIVE COSTS**: As there will be more claims, one of the keys is the control of administrative costs
- CUSTOMER CENTRICITY**: Product design and competitiveness will be an opportunity for insurers to offer new services
- MARKETING & DISTRIBUTION**: Key point to explore as regulator impose same range of criteria to build the policy

The specific challenge of enhancing claims processing

As a consequence of VHIS regulation, the number of claims that insurers will manage is going to increase. To better manage incoming flow, Sia Partners recommend:

BEST PRACTICES

- Reception and archiving: Mobile process of claim declaration
- Control and sorting: Digital management and tasks assignments
- Management: Efficient rationalization of medical acts
- Payments: Acknowledgment and communication on the status of the process

What's next for insurers?

The government ambition of steering 1.5 million people to the private sector is ambitious, and insurers will have to navigate to find the right balance between risk selection and operational efficiency improvement on administrative costs.

