



HARLEQUIN

HEALTHCARE HOLDINGS

Competition in the health insurance market

Submission to The Competition Authority and The Health Insurance Authority

This submission is provided electronically to The Competition Authority, Parnell House, 14 Parnell Square, Dublin 1 [info@tca.ie] and to The Health Insurance Authority, Canal House, canal Road, Dublin 6 [info@hia.ie] further to the recent invitation for submissions from interested parties and the general public, to be received by 12th April 2006.

Harlequin Healthcare Holdings Limited

The company is an interested party relative to health insurance in that Harlequin Healthcare Holdings Limited owns and manages two private acute hospitals. These are St Joseph's Private Hospital in Sligo that is managed by Harlequin Healthcare (Sligo) Limited, and Aut Even Hospital in Kilkenny that is managed by Harlequin Healthcare (Kilkenny) Limited. The company has plans, through acquisitions and new construction, to expand both the size of its existing hospitals and the number of hospitals that it owns and manages.

Harlequin Healthcare Holdings Limited in making this submission will restrict comment to a small number of key strategic issues on the understanding that The Competition Authority and The Health Insurance Authority will themselves undertake the detailed examination and appraisal of the private health insurance market in Ireland from a competition policy perspective.

Harlequin Healthcare Holdings believes that the essential changes needed to facilitate the emergence and evolution of an enhanced level of competition in the private health insurance market are [1] the structuring, designation and treatment of all health insurance providers within the mainstream of the private financial services sector, and [2] the establishment by Government of a Health Services Regulator, and of a Health Services Ombudsman

Health insurance is a financial service and should be regulated as such

Harlequin Healthcare Holdings believes that fundamental to the enhancement of competition in the health insurance market is the need for acceptance by Government that insurance, including health insurance, is a commercial business. The business of health insurance should be organised and regulated as a traded commercial service, and it is an integral part of the overall financial services industry. One implication of this approach is that health insurance should be and should be seen to be a separate issue from the provision and regulation of the actual health services themselves.

The current situation is that all health insurers, except the Voluntary Health Insurance Board (VHI) come within the mandate of the Financial Regulator, or of a Financial Regulator in another Member State of the European Union. Harlequin Healthcare Holdings recommends that the VHI should be designated as a financial service within the mandate of the Financial Regulator. The result may well be the creation of a specialist section within the Financial Regulator to deal with this important and highly complex segment of the financial services industry.

In this context, Harlequin understands that the VHI already comes within the mandate of the Financial Services Ombudsman, having been a member of the voluntary Insurance Ombudsman of Ireland Scheme, and having subsequently been included in the definition of a 'regulated financial services provider' under Regulations made by the Minister for Finance [S.I. No. 191 of 2005, dated 5th May 2005]. Harlequin believes that designation of the VHI within the mandate of the Financial Regulator would be consistent with and complementary to the VHI designation under the Financial Services Ombudsman by S.I No. 191 of 2005.

Role of the State in the provision of health insurance Has the time come to privatise the VHI?

Harlequin Healthcare believes that the case for direct State ownership of Ireland's dominant health insurance company has changed radically since the passing of the Voluntary Health Insurance Act 1957. At that stage, there was little private capital available in Ireland to fund such an operation, and the State was to be congratulated on its initiative in establishing the VHI. The extraordinarily high level of success of the VHI, coupled with Ireland's spectacular economic development, has resulted in there being a viable and mature market for health insurance in Ireland that would probably be best left to private sector provision. Harlequin's belief is that if the VHI as the dominant health insurance provider with 1.56 million members remains in the sole ownership of the State [under the aegis of the Department of Health and Children], that in itself will constitute a perceived [an probably a real] barrier to the achievement of a vibrant level of competition in the private health insurance market. Logically, the existence of a State Body as a quasi-monopolistic provider of health insurance in a national market or significant market segment necessarily constitutes a major constraint on the evolution of a free market.

The cost of health insurance

Recent figures published by the VHI show that customers of the VHI have experienced a 66% increase in their premiums in the five years to the end of 2005. While acknowledging that the VHI is efficiently managed, and that a major reason for the increase was the very high cost of drugs for cancer patients, Harlequin Healthcare believes that any sector that experienced a 66% increase in the price of its services in a five year period when the purchasing power of the € fell by about 13% would *prima facie* appear to be a potential candidate for enhanced competition among the service providers. The dominant position of the VHI may well be a deterrent to the emergence of price competition as well as to the attraction to the market of new service providers.

A related point relative to cost is that, from the viewpoint of a private hospital, the VHI because of its dominant position and its operational approach to negotiations effectively functions as a bulk purchaser of healthcare services rather than as an insurance underwriter for individual policyholders.

Regulation of health services

In the view of Harlequin Healthcare, *the role of health insurance* needs to be differentiated clearly from that of *regulation of the providers of health services*. There is a perceived need for the establishment by the Government of a Health Services Regulator who would be responsible for the governance of health services providers in a manner appropriate to the health services, similar in functioning to the Financial Regulator relative to the financial services industry. The proposed Health Services Regulator would have functions relative to the operational, prudential, price, and consumer-orientation of each health services provider, and of the health services sector as a whole and each sub-sector thereof.

On the consumer complaints side, the establishment of a Health Services Regulator should be accompanied by the establishment of a Health Services Ombudsman who would provide an alternative dispute resolution system for the customers of the health services providers.

The approach as recommended by Harlequin Healthcare Holdings Limited would, therefore, result in a clear differentiation between *health insurance* from the viewpoint of both customers and providers, and *health services provision* from those same two viewpoints. Such clarity of approach would help to create the conditions within which a greater level of competition in the private health insurance market would evolve within a relatively short time.

Dr Con Power
Strategic Policy Adviser
Harlequin Healthcare Holdings Limited
Willow House
Millennium Park
Naas
County Kildare
[Contact – Maria Weafer
Telephone 045-855020
Fax 045-854915
E-mail mweafer@harlequinhealthcare.ie]

31st March 2006