



Your Partner in Diagnostic Imaging Services

The Competition Authority
14 Parnell Square
Dublin 1

12 April 2006

Re: Submission on Increasing Competition in the Health Insurance Market

Dear Sirs,

I am happy to make a submission to The Competition Authority and The Health Insurance Authority on the subject of increasing competition in the Private Health Insurance Market. There would not be a private health insurance market without organisations providing medical services. These are related markets and cannot be examined without reference to each other. I comment on both.

Background

My perspective is the perspective of a service provider of medical services. I am the managing director of MRI Ireland, a company providing diagnostic imaging services. I was Finance Director of Aut Even Private Hospital in Kilkenny from February 2004 to September 2005. I was also Managing Director of United Medical Systems Ltd. UK, so I have first hand knowledge of the medical services market in the UK.

I have previously lodged a complaint with the Competition Authority concerning the behaviour of the VHI. The position of the VHI was upheld based on pricing. I went on to take legal action in the High Court. The basis of the VHI defence was:

- Mobile MRI Systems constitute a moral hazard
- VHI was not in a dominant position in the market; something the VHI have conceded in their current high court action with BUPA

I settled the case before any determination of the case by the High Court. This was due to the fact that I could not afford to continue. A compromise situation was agreed for the period 2003 to 2006.

I provide this information to assist you in assessing the context of my submission.

Magnetic Resonance Imaging Ireland Limited

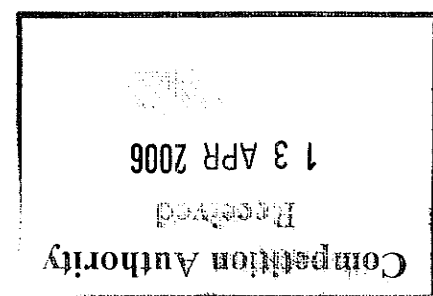
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Suggestions for minor changes in operation practice of the health insurance market in Ireland.

Suggestion

Health Insurance is the only insurance I purchase (both privately and in business) where I do not get a renewal notice.

Suggestion:

Renewal notices should be provided stating details of cover and premiums plus details of any amendment to cover from the previous year.

This will allow time and information to make an informed choice about the renewal of health insurance. There are a significant number of group schemes where the employer is authorised to deduct the premiums from salary and pay over to the insurance company. If the employee numbers are over 50 provision should be made for all PHI companies to be accommodated.

Suggestion

Currently all insurers operate a system where out-patient charges are paid subject to a policy excess. Also the subscriber has to collate all allowable expenses and submit a claim once a year.

Insurers benefits in two ways:

- Cash flow benefits from not paying out claims until year end
- Some claimants do not keep and collate their invoices and therefore do not claim.

Suggestion:

Excess should apply to all claims and not just to out patient services. Claimants should be allowed claim once the excess is exceeded.

This will also promote competition between direct settlement centres and non-direct settlement centres for business.

Market

I understand that the market in Ireland is subject to the following two parameters:

- Community rating
 - It is unclear specifically what services are included in community rating. I understand it is based on in-patient services VHI Plan B.
 - The medical market is moving away from in-patient services to day services and out patient services.
- Open enrolment



Risk equalisation is a new concept introduced and currently being challenged. I understand the concept underlying this policy. I know from meeting with Vincent Sheridan CEO of VHI that his first submission for a price increase to the Department of Health was 18% when his fellow colleagues in VHI were suggesting 9% that year. The Department of Health approved the 18% increase. VHI sought a lower price increase to provoke the introduction of Risk Equalisation. It is unclear to me whether VHI really needs Risk Equalisation or whether it was more driven by their ability to inflict a significant amount of pain on their competitor.

Suggestion:

Review the system of community rating and bring in line with the current position regarding medical services provision: in-patient, day procedure and out-patient.

I would also move away from 100% coverage. There are a lot of developments in the health sector at the moment. The current 100% underwriting has the affect of underwriting bad debts for the service providers concerned. Insurance companies could re-introduce balance billing. This would allow the orderly build up of service without the annual inflation being passed on immediately to insurers.

Market

The Acute Healthcare service market in Ireland is in the region of €6 billion – this is based on the Health Insurance Premium of approximately €1 Billion and €5 billion from the exchequer.

The uptake of private health insurance in Ireland is currently 52% of the population. This would seem to indicate that PHI premiums should be closer to €3 Billion to cover the costs associated with acute healthcare for that proportion of the population. This is a simplistic calculation but it does point to some structural problem in the market.

The number of beds attributed to private healthcare in Ireland is split approximately equally between Public Hospitals and Private Hospitals. Public Hospitals do not charge for procedures carried on or medications used; they only get reimbursed for the “Hotel Costs” for the patient stay. This rate is set by the Department of Health. (VHI argues this is above economic cost for this service.) This creates a situation where the State is giving subventions to Private Health Insurance Companies for activities carried on in State Hospitals. This also distorts competition where the private service providers provide and charge for the full range of services and the public sector hospitals provide the “Procedure Element” free.



MRI Specific Examples:

VHI ran an “informal tender” for MRI services in 2003. The tender rules themselves changed at the whim of the VHI but the organisations that were successful were both public and private entities. MRI Ireland has to compete with public hospitals some of whose equipment was purchased by the state; some of which was purchased by charitable donations. The staffing costs in public hospitals and all other costs associated with the service are also funded by the state; yet MRI Ireland has to compete. Radiologists Fees are set in a document published annually by the VHI yet MRI Ireland had to tender a combined composite fee for these services. (In instances where the public hospital has insurance cover they use the published rates as the amount for the radiologist). This puts an inordinate amount of pressure on the technical fee.

The direct settlement centres were awarded based on a geographic basis rather than other means. This means that centres outside the main urban areas cannot compete on an equal footing. The tender documents for 2006 have been delayed; no explanation has been given.

VHI Service Approval - Policy & Procedures

VHI has a stated policy of managing capacity in the health services. This means that they engage in any means possible to restrict or delay the development of medical services. I give the following examples:

MRI Application – MRI Ireland

MRI Ireland applied for coverage of their MRI service in 2000 using the VHI procedure. VHI acknowledged receipt of the application but did not or would not deal with the application for 6 months. That is their policy. By comparison because MRI Ireland was operating in Northern Ireland, all insurance companies providing services there dealt with our application within one month. We were approved by them all. This process delayed our penetration of the market and the ultimate refusal to accommodate Mobile systems has had a significant detrimental effect on our business since its foundation.

PET Application – MRI Ireland

MRI Ireland applied for coverage for PET services: nuclear imaging scans that can detect early stage cancer. VHI refused our application stating they were reviewing the technology on a pilot basis with the Blackrock Clinic. The truth is and this can be confirmed is:

- There was no pilot project with the Blackrock Clinic. They were operating under the veil of a pilot project but no objective was set, no parameters for review were set and no timeframe for reporting was set.



- VHI extended the pilot project for another year before any discussion with the Blackrock Clinic. The pilot project was extended in December 2003. The effect of this was to give the Blackrock Clinic an unfair start in the market and restrict our development of this service.
- It is ironic that the basis of coverage finally approved by the VHI was the “Medicare List of Clinical Indications” which formed the basis of our original application.

Cardiac Catheterisation – Aut Even Hospital

The application for this service was refused by the VHI. This service was being provided by an external service provider who have extensive business in the UK and were providing a service at Sligo General Hospital. The Public Sector approved the service but VHI refused. It does not make sense; and that is in the context of the VHI wanting to assist the hospital in developing services.

Suggestion

Medical services is a dynamic industry. There are new medications, technologies and procedures being developed all the time. Ireland does not have a Health Technology Assessment Agency like the National Institute for Clinical Excellence in the UK, FDA and Medicare in the USA. It is also unlikely that Ireland could afford a standalone agency covering all developments.

A panel of approved agencies be drawn up such as those mentioned above. If a technology is approved then it should be approved on the same basis in Ireland. If the VHI or other health insurers want derogation from these parameters they have to publish clearly the rationale and basis the derogation giving the third party basis for this e.g. Royal College of Physicians, or Royal College of Surgeons or some other similar authoritative body.

In the event of conflict between insurers and service providers in this regard the first point of call should be a section in the Health Insurance Authority set up for this purpose. This section should be financed by the Health Insurers and could have research function as well.

Further Suggestion

There should be a clear delineation between public and private healthcare provision in Ireland. Areas of potential conflict:

- Consultants Contract
 - Some consultants are allowed carry on private referrals getting paid by Health Insurers in Public Hospital sites.



- Private service providers are competing for this capacity and against professional rates published by the health insurers.
- Health Insurers should not reimburse public hospitals for any work carried on there. It is unclear what rates are being used; what services are provided at what cost and what state aid is provided.
- This situation is further complicated by the structure in existence at St. Vincent's Hospital. This is a voluntary hospital with a central board for Public and Private Services. The public hospital contracts and plans capacity and needs with the private hospital and this is not subject to any normal public procurement processes and goes beyond the normal level of co-operation that exists between public and private hospitals.

Capacity Planning

The VHI have taken this role for themselves. It is inappropriate and a conflict of interest where the insurers determine the appropriate capacity and where this capacity should operate.

VHI can and should set quality standards; to date they have chosen not to. The VHI does not have the internal expertise to do this. This should be done on a transparent basis with the assistance of some third party bodies similar to those mentioned in the earlier section on service approval.

The Department of Health is considering a licensing system for both public and private hospitals. This might be the appropriate body for this role. It is interesting that in the Health Conference this week where the Minister for Health was speaking and Vincent Sheridan was speaking this licensing system was discussed. The Minister for Health was talking in the context of quality. The VHI were talking in the context of capacity restrictions.

There is a valid concern by insurers over inappropriate use of capacity – supplier induced demand. Some jurisdictions require a “Certificate of Need” before a service can begin operating. This creates a market in itself for these certificates. To date I do not see that Ireland needs such a system however I do see within the medium term strong arguments emerging for this type of procedure. If it is introduced it should be independent of the insurance companies and may be a role for the Health Insurance Authority.



Health Insurance Authority

The role for the Health Insurance Authority is quite limited at the moment especially when compared to other industries like telecoms, broadcasting and aviation.

I would suggest a broader role for the HIA that could encompass:

- Capacity Planning
- Dispute resolution in the industry between the service providers and insurers
- Forum for industry development

Yours sincerely


Robert Nutty
Managing Director