For Discussion
on 13 February 2006

LegCo Panel on Health Services
Regulation of Health Maintenance Organizations

Purpose

This paper outlines the operation of Health Maintenance Organizations (HMO), the landscape of managed care service in Hong Kong and the Administration's position in respect of the operation of such group practices in Hong Kong.

What is HMO

2. There is no universally accepted definition of HMO. HMO, which is a common form of managed care[1] in many countries, generally refers to organized health care systems that are responsible for both the financing and the delivery of a broad range of comprehensive health services to an enrolled population.

3. The United States was the pioneer of HMO as a form of managed care. HMOs had a long history of development there, but they did not start to grow rapidly until the late 1970s. Since then the model of HMO has also evolved in other places. So far, HMOs has taken the strongest hold in the United States due to the especially high penetration of private medical insurance and specific facilitation measures adopted by the US government.

4. An HMO, typically found in the US, may possess some or all of the following characteristics-

- A fixed prepaid capitation fee to the HMO[2]
- Contractual responsibility for HMO to deliver specific kinds of health service

[1] Managed care refers to a variety of methods of financing and organizing the delivery of comprehensive health care in which an attempt is made to control costs and assure quality by managing the provision of service. Managed care may include some or all of the following features: a pre-set list of benefits, prepayment of a fixed premium, an agreed fee structure, arrangements with selected providers, explicit criteria for selecting providers, quality assurance and utilization review programs, financial incentives for enrollees to use services in the plan, financial incentives for providers to practise cost-effective healthcare

[2] With the evolution of managed care and HMO, prepaid capitation fee is no longer an essential feature. The premium paid by employer or insurance company may take various forms, such as monthly premiums, "capitated" annual fees (fixed amount per enrollee), or reimbursement every time a service is rendered (fee-for-service with an agreed limitation on the maximum number of services or maximum amount of money reimbursable).

- Enrollees registered with a primary care physician (the gate-keeper) who oversees the health needs of the enrollees and makes referral as indicated

5. HMO provides health care services to its members through a network of doctors, hospitals, and health care providers. They cover a wide variety of services. Compared to traditional indemnity insurance plan, plans using HMOs as providers usually involve a lower premium.

6. In terms of relationship between HMOs and their participating physicians, HMOs may come in various forms including –

- Staff Model: fixed-salaried physicians are employed by the HMO and practise in HMO-owned facilities.

- Group Model: an HMO that contracts with one or more independent groups of physicians to provide services exclusively to the plan's members. The physicians have a business relationship with the HMO, but are not its salaried staff.

- Individual Practice Association Model (IPA): this type of HMO has contracts with individual physicians to provide services for members of its plans. The physicians are free to contract with more than one HMO and take in other customers on a fee-for-service basis.

Landscape in Hong Kong

7. As far as we understand, Hong Kong does not have full fledged US style HMOs. There are groups practising in Hong Kong which provide some of the HMO-like or managed care services. Some of these groups have been in operation in Hong Kong for some time, providing employee medical cover for employers. Most of these managed care groups operate on a fee-for-service basis, though a few may work with a capitation-like arrangement. These managed care groups provide services to mainly group clients such as employers who provide medical benefits for their employees and insurers for medical policies the latter underwrite. The services covered by these groups are largely general outpatient or specialists services although some groups may also provide preventive health care services like health screening. The scope of services to be provided would hinge upon the terms of the contract between the groups and their clients (usually employers who would decide the level of medical benefits to be provided to their employees). In-patient services are mainly arranged through insurance contracts.

8. Managed care groups in Hong Kong are mostly "incorporated

medical practices", with shareholders and directors. Doctors may be salaried staff of the company and some are also its shareholders or directors. Managed care groups usually employ medical practitioners to provide service. They may also procure the services of clinical chains or other group practices to provide service for their clients, again mostly on a fee-for-service basis and at times a capitation basis.

9. In Hong Kong, owners of managed care groups are in the same position as owners of other business entities. They need to obtain a valid business registration certificate from the Inland Revenue Department. This requirement also applies to clinics operated by medical practitioners in solo-practice. As in the case of other businesses, groups operating in the form of limited companies need to seek registration with the Companies Registry.

10. We do not have the exact number of managed care groups in Hong Kong. According to our understanding, the number of such groups is not many. There are, however, many clinical chains and other sub-groups which have arrangements with managed care groups. These clinical chains also take on other patients, and they may employ medical practitioners as their staff. Some of these chains are also operated by medical practitioners who may also take care of patients themselves. According to the Health Manpower Survey conducted by Department of Health in 2003 and 2004, 16.5% and 18.3% respectively of the local doctors were in group practice, but it is not known how many of them were employed by managed care groups.

Concern about operation of managed care groups in Hong Kong

11. The Administration noted that the concern over the operation of HMO-like groups in Hong Kong falls into two broad categories: in respect of (a) their sales practice; and (b) service standard. The former relates to allegation of unscrupulous marketing strategies, lack of transparency of scope of benefits provided, price disputes etc. As for the latter, some medical practitioners consider that professional autonomy of doctors working in HMO-like group practices might risk being compromised by business and financial considerations, thereby jeopardizing the standard of care provided to the patients. There is also concern about salaried doctors being offered inferior remuneration packages.

12. Since 2003, the number of complaints against HMO-like organisations has been on the rise. Relevant statistics collected by the Consumer Council is **annexed**. We notice that the increase is mainly attributed to sales practice, the complaint number of which constitutes more than half of the total complaints received by the Consumer Council in 2005. Among these complaints relating to sales practice, nearly all of them concern the selling of medical discount cards.

13. The Administration understands that medical discount cards in Hong Kong covers both group and solo-practice clinics. They are a form of marketing tools and their nature is not unique to medical services. They are no different than similar schemes available in other services like food and beverages, beauty care etc. Consumer education and knowledge about the terms and conditions of such packages are important.

The current regulatory regime over quality of medical services

14. As far as service standard is concerned, our basic policy is to ensure that medical services provided to members of the public are up to professional standard. From the public health perspective, our foremost objective is to safeguard patients' health and interests through ensuring that the service provided is of standard, regardless of the business mode under which such service is provided. The Administration considers that the provision of medical services, through any organisations or business operators, is primarily a professional relationship between medical practitioners and their patients. Hence, the mainstay of regulation should be on regulating the professional practice of individual doctors.

15. The Medical Council of Hong Kong, set up by virtue of the Medical Registration Ordinance, is the statutory body to regulate the practice of medical practitioners. Medical practitioners are under professional obligation to ensure that their medical services are up to the professional standards as stipulated by the Medical Council. In this connection, the Medical Council has issued a Professional Code and Conduct for the Guidance of Registered Medical Practitioners to ensure medical practitioners' compliance with appropriate procedures and standards of medical treatment in the provision of medical services for the interests of patients. Irrespective of a medical practitioner's mode of practice, he owes professional responsibilities to patients in respect of professional relationship with patients, communication, use of drugs, financial arrangements, relationship with other practitioners, in the course of clinical practice of a registered medical practitioner.

16. In addition to general responsibilities to patients, the Professional Code and Conduct further delineates the appropriate conduct for medical practitioners participating in contract medicine and managed care. The Code stipulates that, among other things, "Doctors should exercise careful scrutiny and judgement of medical contracts and schemes to ensure that they are ethical and in the best interests of patients. Doctors should dissociate themselves from organizations that provide substandard medical services, infringe patients' rights or otherwise contravene the Professional Code and Conduct."

17. Derelict of professional responsibilities may be taken as professional misconduct, which is subject to disciplinary actions imposed by the Medical Council. The Medical Council has put in place an effective disciplinary inquiry mechanism to look into and adjudicate in these cases. Appropriate disciplinary sanctions are imposed according to the seriousness of the contravention.

18. We consider that the above mechanism sufficiently protects patients' interest as far as medical service quality is concerned. We understand that the administration of unregistered vaccines as widely reported in the media in November 2005, has caused considerable concern about the service standards of HMO-like group practices. However, it should be noted that the incident also involved some medical practitioners on solo practice. It should also be noted that it is the individual doctor's responsibility to ensure that drugs provided to patients (including vaccines) should be suitable for use by the patients. Insofar as drug dispensing and prescription is concerned, the requirement is reflected in the Code promulgated by the Medical Council.

19. The Administration therefore currently does not see a need to single out managed care groups for regulation. As stipulated in the discussion paper on "Building a Healthy Tomorrow" issued by the Health and Medical Development Advisory Committee, our vision is to enhance the role of the private sector in the provision of primary health care service, in the enhancement process, there may be a need to strengthen the overall regulation of private medical practice. Such regulatory regime would be more likely to encompass all forms of private medical business operation, including solo-practice clinics, various forms of HMO-like entities and groups. The Administration will ensure that the trade and other stakeholders will be consulted in the development process.

20. Members are invited to note and comment on the content of this paper.

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ANNEX

Complaints against medical organizations received by the Consumer Council from 2003 to 2005

Nature of complaints	Number of complaints		
	2003	2004	2005
Sales practice [1]	2	27	29
Quality of service [2]	6	3	4
Price dispute [3]	2	7	7
Others [4]	0	7	11
Total	10	44	51

[1] E.g. exaggerating discounts offered by medical companies when selling membership of medical service schemes; misleading consumers into joining medical service schemes; coercing consumers to join medical schemes without providing complete information.

[2] E.g. waiting time for consultation being too long; doctors refusing to receive new patients before closing time of clinics; providing incorrect medical check-up reports.

[3] E.g. additional payment required for changing unsuitable drugs prescribed by doctors; refusing refund for drugs considered unsuitable for the consumer in a course of medical treatment.

[4] mainly suggestions regarding medical organizations, such as suggesting the Office of the Telecommunications Authority regulating telephone sales, suggesting the Consumer Council to remind consumers to select medical check-up plans carefully and pay attention to plan conditions in “Choice”.