



Julie Hawes
Inquiry Coordinator (Private Healthcare)
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

19 July 2012

Dear Ms Hawes,

PRIVATE HEALTHCARE MARKET INVESTIGATION

Thank you for your letter dated 22 June 2012. The Association of Medical Insurance Intermediaries (AMII) is pleased to contribute to the Competition Commission (CC) and applauds the Office of Fair Trading (OFT) decision in April 2012 to refer a market investigation reference in respect of privately-funded healthcare services in the UK.

AMII welcomes the OFT's decision and looks forward to assisting the CC with its investigation.

AMII consents to the views, expressed on behalf of our member firms and their customers, being published, if required, on either the CC website or any other form of communication.

AMII is a professional trade association representing the views of brokers and intermediaries who are involved in the distribution, professional advice and administration of health insurance and protection policies. We would refer you to our response to OFT1295 submitted in January 2011.

Following a full review of the CC Statement of Issues dated 22nd June 2012 we submit our comments on the following key issues we would like the CC to consider in its investigation.

1. How easy is it to enter the relevant markets

AMII is concerned that it is not easy for new healthcare providers or new private medical insurers to enter the UK Private Healthcare Market:

New Healthcare Providers

- i AMII has grave concerns that the majority of private hospitals in the UK are financed predominately by venture capital. The hospital groups that own private hospitals operate commercially on a return for investment policy normally in narrow local markets. They use market power both with patients on a self-pay basis and those that have insurance which emphasise and protect their market position.



- ii There does not appear to be direct competition between the main hospital groups across the UK which serves to create a controlled market which builds barriers to entry for other providers.
- iii Local concentration e.g. in Central London where one hospital group has a significant presence is contra to competition and AMII do not consider this is fair and reasonable in London and makes competition basically ineffective.
- iv Larger hospital groups who operate a system of "across the board" protectionism in terms of price negotiations with insurers have contributed to this barrier to entry and have also reduced the effectiveness of insurer networks to increase competition between hospitals. The net result is an inability of insurers to effectively grow the market and launch new products for the benefit of the consumer.

New Private Medical Insurers:

- i AMII understands the requirement for legislation and capital adequacy for any insurer wishing to enter the UK PMI market. This in itself makes it very difficult for a new insurer to enter the UK PMI market. However, it is AMII belief that the current market dominance of two insurers in the UK PMI market, effectively creating a duopoly, makes it difficult for any new entrant to achieve critical mass

2. Competition between current providers including hospitals/clinics and consultants

AMII believes that the dynamics of effective competition in this market would improve the value for money and quality of care that patients receive from private healthcare. Current areas of concern include:

Healthcare Providers

- i The patient journey is dictated by GPs and controlled in some part by consultants who do not always make decisions with due consideration to the financial impact on the patient and/or the sustainability of the insured model. This was highlighted by the OFT through its surveys. There is concern that conflicts of interest may impinge or constrain patient choice.
- ii Hospital chains compete for consultants to work at their hospitals and this could potentially lead to poor outcomes for patients. AMII believes and has evidenced through its membership, that some hospital chains operate incentive schemes for consultants and, more rarely, for GP practices. These incentive schemes add to the overall cost of private healthcare and do not, in themselves, guarantee clinical excellence or improved outcomes. These schemes are often indirect and there is no transparent declaration to the patient. AMII believes these schemes should not be allowed.

Private Medical Insurers

- i AMII is concerned that consolidation of insurance provider and market contraction is damaging for the consumer. Larger insurers who can sustain underwriting losses or subsidise margins across different classes of business, have an advantage over specialist PMI insurers and this leads to lack of choice for the consumer.
- ii Protection of market share by the two main insurers manifests itself in their reluctance to share claims information across the industry, particularly within the SME sector. This curtails competitive risk rating and pricing structures, it encourages "churning". The impact of sharing claims data would enable all insurers to charge the correct price for the underlying risk.

3. The extent and quality of information available to patients

AMII considers that comparable information on the costs and quality of healthcare treatment, should be made a mandatory requirement to private healthcare providers.

- i AMII is of the opinion that currently there is virtually no information on either cost or quality of treatment made available to the patient in a timely manner, or in a format that makes that information easily comparable between healthcare providers. We believe that the minimum information required by patients would be on: the quality of care; cost of treatment; and comparable information on outcomes.
- ii The lack of comparable information means that less efficient hospital providers are therefore shielded from competition and more efficient providers are not able to demonstrate their quality care and patient outcomes. The OFT suggested that previous attempts at resolving this problem have been insufficient and lacked urgency.
- iii AMII believes that the lack of comparative information on quality and cost from healthcare treatment providers also results in product stagnation within the private medical insurance market, with innovative and affordable insurance products not being developed.
- iv AMII also believes that the lack of clear information on the costs of treatment, presented to the patient in a timely manner, also indirectly leads to claim payment shortfalls and uninformed patient choice.

Other issues we consider relevant

- i AMII believes that private medical insurers have a significant role to play in controlling the costs of private healthcare treatment – for example, by imposing benefit limits or caps to control consultant costs. There is currently insufficient information available and a lack of competition to reduce consultant fees. AMII believes this should be a regulated tariff
- ii AMII is concerned about the apparent existence of consultant cartels, notably amongst anaesthetists, and certainly within localised areas of the UK. This has a negative impact on the choice and cost of private healthcare care. In many instances, the patient does not have any effective influence on the choice of private healthcare provider (for example, choice of anaesthetist) and AMII members can evidence many examples of fee shortfalls on reimbursement from private medical insurance policies, where these groups or cartels exist
- iii AMII suggests that the CC should investigate competitive neutrality between the NHS and private sector. AMII believes that this will produce more effective value for patients and provide opportunities for private medical insurers to develop more affordable supplementary products into the market, for the benefit of consumers and employers
- iv The issue of commission payments made by private medical insurers is a concern for AMII. High introductory commission with low renewal commission does not reflect the value and work intermediaries provide for their clients. Whilst there is an argument that the acquisition of new business and growth of the insured population has additional cost, retention of existing business in a competitive market place should be paramount and should be equally rewarded. Some current insurer commission incentives encourage churning and inhibit growth in the market for private medical insurance as the current distribution model concentrates on switching existing business from one private medical insurer to another. This is particularly prevalent in the SME market. AMII would advocate level commission set at realistic rates to create a competitive but equitable trading environment for private medical insurance.

AMII welcomes the CC investigation and offers assistance and support from its Executive and the wider membership to promote choice; transparency and availability of comparable information in a timely manner for private healthcare consumers.

We sincerely hope this investigation will encourage competition and not restrict or distort it and we look forward to decisive action from the CC to ensure that the privately-funded supply of healthcare services is fair and equitable

For and on behalf of AMII Members

Wayne Pontin
Chairman