

PRIVATE HEALTHCARE MARKET INVESTIGATION

Summary of hearing with Simplyhealth held on 1 February 2013

Background

1. Simplyhealth was a company limited by guarantee and was based on principles of mutuality. It did not have a shareholder group and did not need to provide a dividend to shareholders. Simplyhealth was originally called the 'Hospital Saving Association', which had its roots in the cash-plan sector and which provided cash back for primary care activities. Approximately nine years ago, the company recognized the need to diversify, so that a wider range of services could be offered to the public. This included a presence in the private medical insurance (PMI) sector, through the acquisition of the Manor House Friendly Society, which used 'Simplyhealth' as a trading name, followed by the acquisition of the BCWA, based in Bristol, Remedi, based in Reading, Medisure, based in Bristol and, most recently, Groupama Healthcare.
2. Simplyhealth represented around 5 per cent of the PMI market, but commanded a larger presence in the market for administering healthcare trusts. While 5 per cent was a small percentage, Simplyhealth was currently the fifth largest provider of PMI in the market, which was dominated by the four leading players, with BUPA having 40 per cent of the market and the three subsequent players accounting for a total of around 47 per cent. This situation posed two main challenges for Simplyhealth:
 - (a) First, there were real barriers to new entrants. A number of other players had exited the market, for example as the consequence of PruHealth's acquisition of Standard Life. This meant that there were fewer players in the market, resulting in less choice for the public. The level of discounts and the pricing that was provided to Simplyhealth by hospital and consultant groups would be very much influenced by the economies of scale and the volume that a PMI provider was able to attract.
 - (b) Secondly, the availability and quality of information in the marketplace was generally very poor. This paucity of information applied:
 - (i) on the level of pricing to establish what was a fair and equitable rate of payment for various procedures and hospital stays. The only present comparator was the self-pay rate; and
 - (ii) in the context of trying to establish to which hospital, or to which clinical group, a patient ought to be sent. Information relating to clinical outcomes, return to theatre, readmission rates and cross-infection was neither widely available nor published.
3. Simplyhealth had drawn these two challenges to the attention of the Competition Commission.
4. Simplyhealth's recent acquisitions had helped it grow its scale and market presence, to attract better economies of scale from the hospital providers and to build on its expertise in the market. Simplyhealth aimed not just to replicate products and services that already existed, but to grow the market and fill the current gap between its traditional cash-plan products and the more expensive PMI products.

5. Simplyhealth's view was that the PMI market had not grown in recent years; if anything, it had shrunk over the past decade. Simplyhealth had witnessed a decline in the marketplace for individual customers buying PMI. Some individual customers had simply left the market, whereas others had chosen to scale down the level of their cover. Simplyhealth's business was predominately made up of large corporate clients and SME businesses. These corporate clients were focused on how they could contain the size of price increases. Many had adopted the use of an excess or another form of restriction on the level of policy cover that they were providing. In Simplyhealth's experience, however, corporate clients were reluctant to relinquish cover, because this was usually an established part of an employee's contract of employment. Some corporate clients offered their employees 'flexible benefits' or 'cafeteria benefits', where employees opted in or opt out of PMI cover as part of their package of benefits.
6. Although Simplyhealth did not offer its customers cash payments to use the services of the NHS, corporate clients could choose this option as part of their policy cover for employees who were happy to go through an NHS pathway, as opposed to a private hospital or private service. This type of policy offered a daily benefit, up to a certain set number of days, where NHS services and facilities were used.

Competition

7. Simplyhealth noted that the four largest PMI providers exerted the most influence across the marketplace. Simplyhealth attempted to differentiate itself in the market place, in terms of the type and quality of service to its customers, and tailored some of its services specifically to meet its corporate clients' needs.
8. Simplyhealth's experience, having acquired some smaller competitors, had shown that the rates that such competitors would pay for procedures and hospitals were higher than Simplyhealth's own rates. By absorbing these smaller competitors, Simplyhealth had been able to achieve some efficiencies and improvements, eg by further economies of scale in treatment charges.
9. Simplyhealth offered differently priced policies, which enabled access to different hospital networks. Privately insured and corporate customers had a number of price bands to choose from.

Profitability

10. With the correct scale within a business, the private health insurance market could be profitable. The fact, however, that there had been so much consolidation in the market was an indication that many smaller organizations struggled if they could not gain sufficient scale. Other factors, such as increasing regulatory requirements, were also pertinent.
11. As a smaller PMI provider, Simplyhealth believed there was a niche for insurers of a more limited size, which could often offer a different experience. While Simplyhealth was unaware of the profitability levels of the larger private medical insurers, it believed that volume drove profitability and economies of scale within the market.

Healthcare costs

12. Healthcare innovations and changes had moved remarkably quickly over the past decade. Many of the procedures/treatments used today relied on minimally invasive surgery, but coupled this with more complex drug interventions/regimes. The result of

this was that these procedures were generally far more expensive, as the advent of new technology had not yet driven costs down. Alongside this, patients had greater insight and understanding of the procedures/treatments, which had led to greater expectations and demands on their part.

13. Accommodation was only one element of the cost of any procedure; while the length of hospital stays had fallen, other costs were an important factor. Simplyhealth noted that it was the consumables (eg prostheses and implants, all of which were chargeable) that were expensive. Patients themselves benefited significantly from the advances in medical science. Surgical suppliers and drug companies appeared to be the biggest beneficiaries of recent price increases.
14. While there was transparency on mark-ups for drugs and prosthetics, in other areas there was little transparency. Package pricing tended to be done as a revenue-neutral exercise by hospital groups, as opposed to being based on the costs of the individual element of the package.
15. Many hospital groups had estates that dated from the 1980s and 1990s, operating at an estimated 50 to 60 per cent capacity, which arguably faced challenges from the changes in medical science and practice to remain fit for their purpose. Efficiencies were likely to be gained from specialization, rather than from a main hospital theatre carrying out a smaller number but wider variety of procedures in a day.

Shortfalls

16. Simplyhealth used a set of customary and reasonable fees for consultants. These were readily accessible by patients and consultants. It believed that patient choice was important; as long as patients were advised by their consultant and by Simplyhealth of any potential shortfall, then it was up to them to decide whether to proceed with the chosen consultant and make up the price difference themselves. Simplyhealth was willing to help patients identify alternative consultants, who charged within Simplyhealth's fees. Ultimately, however, it was the patients' decision.
17. Simplyhealth had found that some consultants were willing to negotiate their fees and some would even waive any shortfall. Dealing with anaesthetists was more challenging, however, since it was the consultant who chose the anaesthetist. It was difficult to identify any shortfall prior to surgery.
18. Consultants and anaesthetists were only an element of Simplyhealth's healthcare costs. A consultant's clinical decisions, however, drove a significant amount of the costs related to the care pathway. This was particularly the case in relation to the choice of prosthesis, the length of a stay and how many/what consumables to use.

Switching

19. Simplyhealth's view was that individual policyholders often found it difficult to switch insurers, because of their previous medical history. These customers might feel that they were tied to their current insurer, with little or no real opportunity to move. However, it was easier for corporate clients to move between insurers and, over the past two to three years, there had been a development where clients would move for a smaller difference in the renewal premium than was previously the case. Simplyhealth noted that most of the corporate market was intermediated and worked through brokers who facilitated the current structure seen in the PMI market for corporate clients.

Local market power of hospitals

20. Simplyhealth believed that there were two key geographic markets in the UK: London and the rest of the country, with London hospitals charging a premium rate.
21. Many large corporate clients wanted and expected access to all London hospitals and, within that estate, there was a mix of differing levels of acuity of care. Simplyhealth did not distinguish between HCA and independent groups. Corporate clients generally wanted access to all London hospitals, in relation to high-end acuity-type care but also in respect of what could be described as 'district general hospital'-type care.
22. Simplyhealth confirmed that an insurer wishing to operate in the corporate sector needed to provide national coverage. While some corporate clients were located in relatively tight geographical locations this was the exception.
23. Simplyhealth, as a rule of thumb, agreed one flat national rate with each hospital group and rates did not vary for each hospital within that group. Simplyhealth was not aware of dealing with any entirely independent solus hospitals. The solus hospitals it was aware of were all owned by the groups, which meant they were all priced on a national basis. None of the groups tried to differentiate their rates between their different hospitals.
24. Simplyhealth believed that the NHS market was changing, with more focus being placed on the Private Patient Units (PPUs). Simplyhealth was increasingly being approached by PPUs to come and review their facilities. It believed that there was a huge benefit to the NHS providing private care, and in particular at the high-acuity end, for equipment.
25. Some corporate clients, based in London, encouraged their employees to use alternative hospitals in Greater London. Choosing this option could assist the client financially. There was, therefore, scope for the outer city hospitals to provide some competition to hospitals located in the centre of London. Historically, most London-based clients wanted to go to hospitals in the centre of the city and only a few corporate clients had decided to exclude central London from their benefits. Another consideration for clients was the number of leading clinical specialists that practised in London; there was a strong client perception that the treatment, facilities and care that one could receive in London were better than elsewhere in the country.

Costs

26. Simplyhealth noted that hospital prices were not transparent. Many components went into the cost of accommodation and theatre, for example, and it was difficult to tell whether the balancing of the tariffs was always reflective of the cost of the delivery.
27. PPU fees were traditionally lower, although PPUs with private sector partners tended to charge higher prices. While Simplyhealth recognized it was a risk in the market, it considered that PPUs and the opening of foundation trusts did add an element of competitive pricing. Simplyhealth recognized that there was always a risk that, as more large incumbent private providers in the UK got involved in running PPUs, prices would rise to what was currently highest pricing in the market.
28. In the future, foundation trusts might be encouraged to realize the potential to increase their revenues, without significantly affecting their volumes, by accepting a private partner.

29. Simplyhealth regularly reviewed its consultant fee schedule. This was prompted by changes to clinical practice and the addition of new or amended procedure codes.

Negotiations

30. Simplyhealth held regular reviews and annual negotiations with the providers. In preparation of this, Simplyhealth reviewed, in detail, the year-on-year expenditure, and would benchmark the mix of suppliers and procedures. Topics for discussions with providers included challenges, cost pressures, staffing and capital investment.
31. Simplyhealth did not believe that it was disadvantaged by its size. It fully accepted that it was possible that the major insurance players in the market achieved better rates than Simplyhealth. However, it recognized that it was not in the hospitals' interests to put smaller players out of business. Simplyhealth worked hard to maintain good long-term relationships with the providers. This was perceived to be in the best interest of the industry as a whole and the long-term sustainability of the business.
32. Simplyhealth believed that providers were keen to keep an open market, and saw Simplyhealth as an organization with which providers liked doing business.

Information

33. It was important for patients to get on the right clinical pathway and see the most appropriate clinician for their condition. Such decisions should be based on clinical outcomes and patient satisfaction, rather than on cost. Hospitals were better informed than insurers to advise patients on clinical judgements. Simplyhealth also encouraged its patients to talk to their GPs, although it appreciated that the traditional long-standing GP/patient relationship was rare in today's world and that one patient might see many different GPs over the course of their lifetime. As there was no real data classifying the large number of specialist surgeons and various procedural outcomes, it was becoming increasingly difficult for GPs to make informed recommendations.
34. Research had shown that GPs were keen to identify patients with PMI, when considering referral to a consultant. The belief was that the opportunity to send a patient down a private pathway, which avoided a strain on a GP's NHS budget, was now established much earlier on in the process.
35. The health service as a whole would benefit from some base level information in terms of clinical outcomes, readmission into hospital or theatres, cross-infection etc. For an industry that was so dependent on those outcomes it seemed counter-intuitive that such information was not published.

Consultants

36. Simplyhealth set a fee schedule. If a patient had chosen a consultant who charged outside of this schedule, it would invite the consultant to work within the schedule. This could receive positive responses.
37. Simplyhealth confirmed that, to its knowledge, consultant fees had not increased for approximately ten years. Consultants, however, set their own fees and knew there were different fee schedules in the market. They could set those fee schedules to whatever level they chose. In general, they adhered to Simplyhealth's fee schedule.

38. Historically, some London consultants charged more than those in the rest of the country.
39. Although Simplyhealth knew some anaesthetist groups, it was the consultant who chose which anaesthetist would assist during an operation; insurers and patients had no real influence on that decision.
40. Radiologists were another identified group that set its own fees. Simplyhealth would speak to hospital groups regarding these fees. It did not negotiate directly with any other consultant groups.
41. Simplyhealth was interested in working directly with groups and hospitals to create new treatment models, aimed at improving the patient care pathway. It was dependent on the cooperation with, and work of, the consultants and believed it would be wholly inappropriate to alienate them.
42. Simplyhealth was aware, albeit anecdotally, that some surgeons questioned the value of private health and the continuing affordability for them to undertake it.

Vertical integration

43. Simplyhealth had yet to see any difference, in terms of referrals arising from hospital groups owning general practices, but it was closely watching developments in all types of vertical integration. Future clinical intervention might not be restricted to just hospital environments and hospitals were alert to the delivery of care in whatever setting was the most appropriate.
44. Simplyhealth was interested to see private care being delivered at a much lower price. Lower acuity procedures being delivered in hospitals were by definition expensive. If this could be moved into an appropriate environment, where one could better control the cost and deliver it in a clinically appropriate way (eg through GP groups), then Simplyhealth believed that this could have a very positive impact.
45. Simplyhealth believed that healthcare commissioning within the NHS would require a very different mindset from GPs. As primary care trusts and the commissioning element were removed, GPs would become far more aware of the pressures on budgets and the consequences of their decisions within an NHS setting. This would then flow over into how GPs might focus on the potential for PMI as a means of providing additional treatments, to the benefit of their patients and potentially the impact on their own budgets. GPs would then become better informed buyers of services as well as potential providers thereof.

Potential impact—de-recognizing hospitals

46. Simplyhealth raised its concerns regarding major insurers de-recognizing hospitals. In the event that a hospital was delisted by a major insurer, the concern was that this could impact the long-term sustainability of that hospital or hospital group. This might have a big impact on other smaller insurers and Simplyhealth's business in turn.