

NON CONFIDENTIAL

RESPONSE TO DIVESTMENT OPTIONS PAPER – AVIVA HEALTH

Introduction

1. This submission sets out the views of Aviva Health in relation to the divestment options paper (the “Paper”) issued by the CC. Aviva is supportive of the CC’s proposals and believes they will bring benefits for customers. We are concerned however that in London the proposals do not go far enough. We set out our comments below.

Methodology

2. Aviva understands that when considering proposed divestments some simple rules must apply in order to establish which option to pursue but we are concerned that in London the underlying competitive issues have not been fully considered. As we set out below, HCA’s ownership of primary care and outpatient facilities will prevent the proposed divestments from effectively improving competition in London.

London

3. In relation to London, Aviva has concerns that the divestment proposals set out in paragraphs 3-30 of the Paper, do not go far enough to address the dominance of HCA in that market.
4. As we set out in our hearing follow-up letter our preliminary analysis shows that HCA owns approximately 95% of all consultation rooms, outpatient and diagnostic centres in the city of London (EC1 postcode). HCA also owns additional primary care facilities and 3 occupational health facilities (Rood Lane, Blossoms and Galen) which are all based in this area.
5. Satellite out-patient consultation rooms are effectively used by HCA as an extension of their hospital facilities and they provide a mechanism for HCA to gain control of the patient pathway at an early stage. If these outpatient and primary care facilities remain in HCA’s ownership, HCA will still have control over the pathway and will be able to divert business away from any divested hospitals to its remaining facilities.
6. We believe that in order for any new owner of divested hospitals to be able to provide a competitive constraint on HCA’s remaining facilities, some of these outpatient, primary care and diagnostic centres will need to be included in any divestment package.

Local impact in areas outside London

7. Outside London we believe the proposed divestments will have a positive impact in the local areas where the affected hospitals are located. The national market power of hospital operators however, will be largely unaffected by the proposed divestments (save in a limited way in the case of BMI). Aviva strongly believes that the proposed behavioural remedies are crucial in driving more competition between hospitals at a local level.
8. We believe that in the cluster markets which the CC has identified, more hospitals in different ownership will drive competition and lead to lower prices for customers but there are very many more “hospitals of concern” which will not be affected.

Benefits

9. In those areas where divestments are proposed, provided that we are able to contract with individual hospitals and not be penalised (as we have been historically) for excluding

uncompetitive facilities from our network, we believe we will achieve lower prices which will be passed on to customers in lower premiums.

10. We know that we achieve lower prices from independent hospitals and smaller hospital operators than we do from the large groups. The proposed divestments will have a significant impact in the affected areas.
11. It is difficult for Aviva to accurately evaluate the level of benefit that will result from the proposed divestments. We have not historically negotiated with hospitals individually or even regionally and so it has been difficult to quantify the impact of market concentration at a local level. We do, however, know from our experience with [§<], that a new entrant to the market requiring PMI recognition provides us with a valuable opportunity to negotiate competitive rates.
12. We also know that for benefits to be realised, other changes are necessary. As we made clear at our hearing, we are positive about the divestments but we believe they will only deliver benefits as part of a broader package of remedies. The critical elements of this are the ability to negotiate with individual hospitals and the availability of improved information about fees and quality.
13. All of these together will allow Aviva the ability to leverage competition in local markets and use the information base to make informed purchasing decisions. These improvements can then be reflected in better policy design and pricing.
14. Aviva remains supportive of the CC's findings and proposals and we look forward to receiving the provisional remedies paper in January.