

Ms Christiane Kent
Inquiry Manager
Competition Commission
Victoria House
Southampton Row
London WC18 4AD

30 April 2012

Dear Ms Kent

Thank you for your letter dated 4th April 2012 and the opportunity to engage with the Competition Commission (CC) in its market investigation into the supply or acquisition of private healthcare (PH) in the UK.

Aviva Health welcomes the market investigation. We do not consider that the market currently delivers the best outcome for customers of private medical insurance (PMI). There are two distinct customers though an individual may be both; the purchaser of the policy who pays the premiums and the patient who receives the healthcare services funded by the policy.

Our position, which is essentially that of a purchaser of healthcare on behalf of others, gives us an informed view as we seek to balance both customer need and the capabilities within the PH market whilst keeping the PMI market affordable and sustainable.

Aviva Health is the UK's third largest PMI provider with 800,000 customers and an 11% market share. We have an annual spend of circa £300 million per annum with private healthcare providers. We are well placed to explain and evidence our experiences to the CC, demonstrating how features of private healthcare lead to poorer outcomes for consumers than might otherwise be the case.

The market failures and features of private healthcare provision that underpin the current situation are complex. This submission does not cover them in detail. We highlight some of the main issues that we believe the CC should take into consideration in its inquiry. We would like to discuss these further with you. In essence, we believe there are four key themes that are not separate but interlinked.

- The patient pathway – the journey which the patient makes as he or she receives medical treatment and the choices they have along that journey:
- Competition between PH providers – the impact of solus and “must have” hospitals:

- Availability of information – there is little data available to customers of PH services to enable informed decisions:
- The heterogeneity of customers – our customers include individuals and corporate policyholders with different needs. For an individual customer the needs also change between the point of purchase and the point of use.

Choice and competition is often constrained early on in the patient pathway. This is compounded by a number of practices along the pathway that may further limit competition, causing harm to patients

For an individual PMI policyholder the first visit to their GP is often pivotal in the referral pathway. GPs often direct a patient to a named consultant or a PH provider. This is a crucial step as choice of consultant/PH provider effectively determines the choices made further on in the pathway. It also determines whether patients are likely to face any additional costs that are not met by their insurer. However, the GP's referral decision is, in most if not all cases, based on a very limited information set. There are no datasets of price or quality of consultants/providers to inform these decisions. We submitted evidence (based on our own survey of GPs) to the OFT suggesting that these crucial referral decisions are often based on limited anecdotal evidence.

Beyond this stage, the patient is then faced with a consultant who will have a significant influence on their treatment choice and the cost of treatment. Even when presented with information on fees, customers have no basis to judge whether the fee (which may exceed the allowance on their PMI policy) reflects the quality of the consultant.

In addition to the choice and cost of treatment, the consultant also has significant influence on other aspects of the patient journey – including the choice of hospital where treatment will take place and use of specialists such as anaesthetists:

- Consultants will typically operate their private practices from a small number of private hospitals. Aviva Health understands that some consultants also have a financial relationship with PH providers. They face incentives to refer patients to particular hospitals (creating a barrier to new entrants who rely on an ability to win referrals). These same financial relationships also create incentives to over treat patients. Likewise, hospitals face clear incentives to increase patient admissions to their facilities. The CC should consider whether there are sufficient controls in the current patient pathway to prevent these incentives from resulting in inappropriate treatments and referrals.
- We have additional concerns about the role of anaesthetists, who, in the case of surgical interventions, the consultant will also typically choose. The anaesthetist's fee is usually unknown to the patient before the day of surgery, and at this point the

- patient is in no realistic position to either negotiate a lower fee or to switch to another anaesthetist. Anaesthetists are more likely to charge above Aviva's fee schedules than consultants. In that regard, of the fees incurred by Aviva policyholders which exceeds the allowance on their PMI policy, over a third relates to Anaesthetists.
- Aviva Health believes that greater choice and competition in the pathway would deliver significant benefits to patients. It would also enable Aviva to provide guidance and help to patients as they navigate their way along the pathway. This is something our customers expect us to do. Indeed many would like us to proactively manage their journey along the pathway. Our experience with *Backup*, a fast-access service we offer for customers with musculoskeletal disorders, has shown that an evidence-based alternative to the traditional PMI referral pathway can deliver clinical benefits to patients and be more cost effective. At the same time, this scheme receives extremely high levels of satisfaction from customers who experience easier access to treatment and faster access to care.

Aviva Health's efforts to develop similar initiatives in other clinical areas have met with considerable resistance from consultants and from PH providers.

Aviva has particular concerns about the limited extent of competition between private healthcare providers

There is, currently, only a limited scope for competition in the supply of private healthcare at the national, regional and local level.

As a provider of PMI across the UK, Aviva health must be able to offer customers the option of national coverage of PH providers, especially for our large corporate customers. Large hospital groups know this and leverage their ownership of solus/'must have' facilities during negotiations. We face significant pressure to accept national pricing and to include all of a hospital group's facilities onto our network. When Aviva Health has tried to reduce the number of facilities used within a given hospital group, we have faced significant price increases across the remaining facilities. These have neutralised our attempt to lower costs.

Aviva Health's view is that this practice does not benefit patients or purchasers of PMI. National contracts weaken price signals in local markets and often mask inefficient local provision of private healthcare. We believe this dampens local competition and limits effective choices. This dampening is potentially compounded by the financial relationships between PH providers and the consultants that refer patients to them.

Aviva Health is concerned that this situation is unlikely to get better without intervention, and, in fact, may deteriorate further. Some large hospital chains have been expanding their market positions by acquiring flagship hospitals, smaller private hospital chains and

Private Patient Units and increasing their charges. In the process, they have increased their ownership of solus and 'must have' facilities and enhanced their market power accordingly. Aviva Health is also aware of hospital chains vertically integrating with providers that provide care earlier in the pathway. We are concerned that this has the potential to further reduce patient choice without clear benefits to patients by determining the customer's pathway even earlier in the process. There is a risk this trend will further consolidate the market power of the big chains.

Aviva is aware that a number of PH providers have argued that NHS providers are a constraint on power in the PH market, particularly as their restrictions on private patient income are relaxed. Aviva Health strongly disagrees with this. With the exception of a small number of NHS facilities, they are not in general seen by either PH patients or consultants as a suitable alternative to PH providers.

There is no clear and comparable information on quality and costs

There is no standardised and comparable information on PH provision that is available to allow patients to make informed decisions. This lack of information differentiates private healthcare from most other markets. It is also at odds with the NHS-funded sector, where information on the quality of provision by provider is increasingly available.

Competition between hospital groups and consultants is prevented by this lack of information. We firmly believe that this increases costs to patients and purchasers of PMI.

Current initiatives by the private healthcare providers to provide comparable information have been limited and willingness to engage with Aviva Health on the design or development of a new data regime has been very limited. Consequently, we do not have confidence that these initiatives will provide data of sufficient quality or in a reasonable time frame to bring about real improvement for patients or purchasers. Whilst Aviva Health accepts that there may be some technical difficulties in building appropriate information metrics across all treatment types, experience in other health systems shows that these difficulties can be overcome. These difficulties are not an excuse for making no progress at all.

Aviva Health believes that the full benefits that improved information could bring to patients will not be realised unless and until there is some form of intervention to make this happen.

Understanding the needs and demands of customer segments

We are aware that during the OFT's market review, some PH providers argued that insurers had an interest in controlling the costs of patient care, potentially impacting the quality of care delivered. We agree with the OFT's conclusion that this is unlikely to be the case. Insurers need to protect the quality of their products because of competition in the provision of PMI. In understanding the incentives of insurers with regard to the acquisition of PH, we note that:

- At the time of purchase, customers (both corporate and individuals) expect Aviva Health to offer PMI that provides access to high quality healthcare that is also cost effective.
- Data from individual PMI customers, corporate PMI customers and our intermediaries shows that they expect insurers to control the costs of PMI.
- At time of treatment, patients with PMI do not have a strong incentive to consider the cost of their treatment and will be guided by their GP/consultant. This creates scope for practices which increase the cost of PH treatment without a commensurate increase in the quality of treatment.

Any practice or inefficiencies with regard to the provision of private health which increases the cost of PMI creates affordability issues for purchasers of PMI. Without greater competition and without informed and evidence-based treatment choices, we are concerned that Aviva Health's ability to deliver affordable and high quality PMI is more limited than it could be. This could deny access to insurance for a large number of people who may be priced out of the market. Aviva Health also encourages the CC to consider how better information, including the application of evidence-based medicine, could be used to deliver better value in the treatment pathway. Aviva's view is that insurers have a significant role to play in implementing such improvements, in common with commissioners in many other health systems. Our ability to do this to the benefit of patients is, at present, limited by the ability of PH providers and consultants to resist innovation that is relevant to customers and purchasers.

Aviva Health urges the CC to note at the outset of this inquiry the varying demands of different customer segments in the market. For instance, an increasing proportion of the market is funded by corporate customers who purchase insurance cover on behalf of their employees and other beneficiaries.

Corporate customers spend a lot of time with their PMI provider and their specialist intermediary or employee benefit consultant defining their very specific policy and service needs for the customers that they represent. For example, they expect to see data on price and quality and are making increasing demands on their insurers to manage costs in the pathway and deliver care in different ways. Often when we are able to make

innovations for our corporate customers (e.g. the *Backup* initiative) this feeds through to innovation across all our customers.

The lack of competition in private healthcare provision means suppliers are very slow to respond to these clear signals from this customer segment.

Summary

Aviva welcomes the CC's review of private healthcare. We believe there are features of private healthcare provision that are likely to reduce competition between hospital groups and specialists. These result in inefficient delivery of care and higher costs and PMI premiums than would otherwise be the position. We do not believe the market is delivering the best outcomes for PH patients and PMI customers.

We look forward to providing you with such assistance as we can to help you understand how private healthcare is currently provided, where that provision is ineffective and our thoughts on how the system can be improved for the benefit of PH patients and PMI customers: if the CC wanted to do so during a site visit to Aviva Health, you would be welcome.

This letter does not contain any commercially sensitive information.

Yours sincerely

Mark Noble
Health and Group Risk Director
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