

Progress Statement: Private Healthcare

25 August 2011

1 INTRODUCTION

- 1.1 The Office of Fair Trading (OFT) is conducting a market study into private healthcare in order to examine whether the market is working well for consumers and, if not, what can be done to improve how it functions.
- 1.2 The OFT has received a large number of submissions from a range of interested parties including providers, insurance (PMI) providers, consultants, medical professionals, professional bodies and individual consumers.
- 1.3 The OFT has also commissioned and published two reports from independent market research consultants. The first report surveyed 400 GPs and 400 consultants via telephone and on-line interviews, to provide evidence and information on the relationship and interactions between GPs, consultants and patients. The second conducted in-depth interviews with 40 patients who had recently received, or are currently seeking private treatment.

Population Overview Report (pdf 1,277kb)

www.offt.gov.uk/shared_offt/market-studies/Population-Overview-Report-1.pdf

The Patient Journey (pdf 671kb)

www.offt.gov.uk/shared_offt/market-studies/The-Patient-Journey-Report.pdf

- 1.4 The provisional thinking of the OFT based on the evidence received and considered to date is that the market for private healthcare may not be working well for consumers with regard to:

- The lack of easily comparable information on the quality and price of different providers and consultants,
- consultants and their relationships with providers; and,
- the presence of local market power and barriers to entry in the provision of private healthcare.

Information transparency and asymmetry

- 1.5 From the evidence received to date, there appears to be a lack of easily comparable information that patients and/or their GPs can use to judge the quality and prices of different providers and consultants working in private practice.
- 1.6 Specifically, the OFT is concerned that a lack of comparable information may dampen demand-side competition as it reinforces patients' preferences to delegate wholly their decision-making to GPs rather than exercising more informed choices over their treatment options.
- 1.7 Without such information, GPs' referrals to consultants (and in a minority of cases to hospitals) seem to be primarily on the basis of informal information concerning quality (and without regard to price considerations).
- 1.8 This lack of comparable information to support consumer choice may mean that both providers and consultants do not compete effectively on price or quality. It may also create a competitive dynamic where competition between providers is primarily based on attracting consultants to their facilities, for example, through the use of a variety of financial incentives (see below).
- 1.9 Increased transparency and comparability regarding quality and price information may assist private patients and their GPs to drive competition between providers and consultants via the creation of greater incentives to improve quality and/or lower prices to attract patients.

Consultants

- 1.10 As mentioned above, the OFT has concerns that private healthcare providers compete primarily by attracting consultants to work at their hospitals, rather than directly competing for patients based on the price and quality of their facilities.
- 1.11 The evidence received to date suggests that providers use a spectrum of incentives to attract consultants to their hospitals. These range from non-financial incentives, such as free secretarial and/or billing support, to direct payments for loyalty or revenue and equity shares.
- 1.12 The OFT's concerns regarding the relationships between consultants and providers are twofold. First, in the absence of transparent and comparable price and quality information on consultants to inform consumer choices, consultants' incentives may increase the cost of private healthcare without driving improvements in quality. Second, the OFT has concerns that the provision of certain incentives may foreclose competing providers from entering or expanding into the private healthcare market since these arrangements may distort the referral patterns, and in some cases incentivise consultants to direct a significant proportion of their patients to one facility.

Local markets and barriers to entry

- 1.13 The evidence received to date suggests that private patients wish to access private healthcare near where they live. These preferences appear to create local markets for private healthcare. In the presence of economies of scale and scope, local monopolies exist in certain areas that can only sustain one private healthcare hospital, so called 'solus hospitals'.
- 1.14 The OFT is concerned that providers can use areas where they have local market power to distort or restrict competition in the provision of private healthcare. For example, the OFT is concerned that local market power could be used to distort or restrict competition in the following ways:
- Providers may use 'solus' hospitals to leverage price increases to PMIs across its network of hospitals,
 - Providers may use 'solus' hospitals to leverage recognition of their other hospitals by PMIs,

- Providers may use their local market power to increase barriers to entry.

Next steps

- 1.15 The OFT will host two roundtables in early September with a range of stakeholders to discuss how to address the concerns regarding information asymmetry in relation to providers and consultants. The roundtables will consider the nature and level of the information needed to drive competition in the market as well as how the information can be disseminated.
- 1.16 The OFT is still analysing whether the issues relating to consultants and local markets raise concerns and, if so, what actions may be appropriate. It will seek further evidence regarding these issues.
- 1.17 The OFT is considering a range of possible outcomes to the study. Possible outcomes of market studies include: enforcement action by the OFT, a market investigation reference to the Competition Commission, recommendations for changes in laws and regulations, recommendations to regulators, self-regulatory bodies and others to consider changes to their rules, campaigns to promote consumer education and awareness, or a clean bill of health. It plans to publish its Market Study report before the end of 2011.