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PMI AND PMS MARKETS ARE COMPETITIVE SAYS OFT BUT BETTER INFORMATION FOR POLICYHOLDERS IS NEEDED

An inquiry into private medical insurance (PMI) and services (PMS) has cleared the sector of major competition problems but highlighted the need for much greater clarity and accuracy in the information available to policyholders.

BUPA and PPP, the major insurers, have been asked by John Bridgeman, Director General of Fair Trading, to take immediate remedial action to clarify policyholders' rights concerning treatment.

The inquiry into the PMS and PMI markets was launched following complaints, primarily from private hospitals and consultants, into a range of issues including: the operation of hospital networks principally by BUPA and PPP, vertical integration, the negotiation of hospital charges, BUPA's Consultant Partnership Scheme and BUPA's Benefit Maxima.

The OFT has concluded that:

- Information provided to BUPA and PPP policyholders is unsatisfactory and must be improved. In particular, policyholders should be given clear and accurate information on renewal of policies to enable them to make informed comparisons between different types of policy.

Policyholders should also be fully informed as to their rights to

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receive treatment from particular hospitals or consultants. BUPA policyholders should be better informed about the implications of using a BUPA Partnership Consultant

- The structure of the PMI market is competitive and open to new entry and product innovation
- The development of hospital networks has been a reasonable response to relatively static demand for PMI coupled with rising costs and overcapacity in the PMS market
- Hospital networks have been successful in encouraging hospitals to compete on price and quality and the evidence so far suggests that consumers are benefiting from these improved efficiencies through wider choice of lower cost PMI
- There is no evidence that inefficient hospitals are being chosen for the networks or that the insurers are exacting excessive levels of discounts from hospitals. Greater transparency in selection procedures should however be made a priority not least given the vertically integrated nature of BUPA and PPP's businesses
- There is little evidence of hospital closures as a direct result of hospital networks and, indeed, some closures might be expected given the surplus of hospital beds in the PMS industry
- Nor is there any evidence of the smaller insurers being significantly disadvantaged as a result of the networks although the OFT would consider very carefully any further vertical integration of BUPA or PPP's businesses

- There is insufficient evidence that consultants are encountering significant obstacles in gaining admittance rights to network hospitals

On BUPA's Benefit Maxima OFT has concluded that

- The MMC's 1994¹ conclusions on the BUPA Benefit Maxima remain valid and that the removal of BUPA's Benefit Maxima, with no comparable replacement, would lead to significant increases in consultants' fees
- As recommended by the MMC in 1994 support should however be given to a Code of Practice which requires consultants to charge fairly and reasonably and give advance notice of fees to patients and GPs

John Bridgeman, Director General of Fair Trading said today:

'My job is to investigate possible consumer detriment and determine whether competition is healthy.

'In this case I find that the structure of the PMI is competitive and that a reference to the Competition Commission is not warranted. I realise that this will not please a number of people involved in private medical services but it comes after a thorough examination of their complaints and concerns. In my view policyholders have benefited from the decision by the major insurers to be selective about hospital provision in a market faced with increasing costs and more hospital beds than it can use. Overall I believe that policyholders' value for money remains dependent on their continuing to

¹ Monopolies and Mergers Commission Report on agreements and practices relating to charges for the supply of private medical services by NHS consultants- Cm 2452 February 1994.

have a wide choice of policy and the benefits of hospital networks being passed on to them through lower premiums.

'I am not at all happy, though, about the quality and quantity of information available to policyholders. I have raised my information concerns with insurers² in the past and will be seeking to ensure that they are addressed by February of next year. In addition, I will be asking BUPA and PPP to make certain specific improvements as quickly as possible. In particular, automatic transfer of policyholders into network policies should cease and greater clarity is required for policyholders on BUPA's Consultant Partnership Scheme. Consumers are entitled to clear and well presented information of their rights under their policies - in particular where they can be treated and by whom - to enable them to make the right decisions.'

Consumers concerned that they have not been given full information about their rights should write to the Insurance Ombudsman at City Gate One, 135 Park Street, London SE1 9EA.

On other matters of complaint to the OFT, the Director General said:

'We have looked again at consultants' complaints that BUPA's Benefit Maxima unduly constrain their charges. We agree that they do constrain charges, but removal would mean even less transparency in charging and an increase in fees to the detriment of consumers. The BMA and the industry should, however, give some priority to developing a Code of Practice on charging. This was recommended by the MMC five years ago!'

² **Health Insurance: A second report by the Office of Fair Trading (OFT 230) May 1998**

NOTES

1. Under the Fair Trading Act 1973 the Director General has a duty to review commercial activities in the UK with a view to becoming aware of monopoly situations and uncompetitive practices. If he considers that a monopoly situation exists he has the power to make a reference to the Competition Commission (CC). This allows for a thorough investigation to be carried out to determine if a monopoly situation exists and, if so, whether its existence or the conduct of the monopolists concerned has, or may be expected to have, an adverse effect on the public interest.
2. Under BUPA's Consultant Partnership Scheme, BUPA grants consultants a bonus of 5% of their fees provided they charge within BUPA's Benefit Maxima and refer policyholders to network hospitals.
3. BUPA's Benefit Maxima are a published list of national upper limits on consultants' fees. The MMC concluded in 1994 that they did not operate against the public interest.

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