

# PRIVATE HOSPITALS

Britain's private hospitals have enjoyed private equity investment and increased business from the NHS over recent years. But with health service work and self-pay revenue looking less secure, could the insurance industry be set to benefit? **Edmund Tirbutt** investigates



**I**t has to be said that if the NHS Choose and Book scheme was everything it is cracked up to be, the case for paying for private medical insurance (PMI) could start to seem extremely tenuous to many policyholders who find themselves strapped for cash during the economic downturn. After all, since April 2008 NHS patients have in theory had the right to opt for treatment in virtually any private hospital.

Bupa's 2008 *Health of the Nation* survey reveals that 73% of people consider clean hospitals as a key reason for buying PMI but, if NHS treatment is available in private hospitals, cleanliness ceases to be an issue. So does the ability of PMI to provide a private room, which will normally be available to those treated in a private hospital on the NHS, together with free parking, a decent staff to patient ratio.... and the rest.

half of people preferred the idea of having the consultant – and hospital – chosen on their behalf in return for a premium discount. Furthermore, some PMI policies are no longer covering fees in full for the more expensive consultants and the marketplace is awash with tales of consultants being delisted by insurers for no satisfactory reason.

Penny O'Nions, principal of The Onion Group, a financial, medical and legal advisory service based in Iver in Buckinghamshire, says: "In the current economic climate people will be looking to save money, and those who have paid premiums for years without having a claim and those who have had claims denied may have lost confidence in PMI. On our

## REASONS TO BE CHEERFUL

Fortunately, however, the Choose and Book story, which dates back to 2004, does not seem to be having any significantly adverse impact on demand for PMI. Around half of all first referrals from GPs are made via Choose and Book and the numbers that have ended up in private hospitals have increased tenfold in little over 12 months to over 3,500 a month. While this undoubtedly represents progress, its implications for the private sector are still minimal.

Julian Ross, head of policy communications at Standard Life Healthcare, says: "Although the Choose and Book figures certainly show a significant uplift [in the number of NHS patients treated in the independent sector] it is important to remember that we are still only talking about around 20 patients per private hospital per year. So it's really only a tiny proportion."

There would seem to be a long way to go before the tie-ups between the hospital groups and the NHS prove any serious threat to the perceived value of PMI, and the current indications are that this situation is unlikely to ever arise. Even if Choose and Book continues to progress in leaps and bounds, it is likely to be counteracted by a slowdown in other NHS/private work.

According to Laing & Buisson's *Healthcare Market Review 2008-2009*, the NHS is the second largest funding source for the hospital groups, having generated an estimated 19% of revenues in 2007 – up from only 10.5% in 2004. But feedback from the market suggests that this momentum has not been maintained during 2008 and that, with private hospitals also experiencing a

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Mike Izzard, Premier Choice Group

While the PMI route should prove quicker, if all NHS treatment was carried out within the intended 18 week "beginning to end" timeframe, the financial savings available for enduring a brief episode of masochism could seem attractive. Furthermore, the fact that the NHS does not offer a choice of consultant to those treated in private hospitals no longer represents quite the cataclysmic handicap that most insurers would like policyholders to view it as.

When conducting research prior to the launch of its Guided Option in 2006, Standard Life Healthcare found that over

legal side we are coming across a growing number of people who are finding that the consultant they have seen is no longer available to them because the insurer decides to delist them.

"The insurers themselves are clearly feeling the pinch as they are enjoying poor investment returns, and this is impacting on their overall strategy towards benefits. We have come across commercial practices which are confusing to subscribers who understood that the flexibility of PMI allowed them to choose their hospital, consultant and time of treatment."

**DID YOU KNOW?**  
**Circle is a new hospital chain that aims to have 30 facilities up and running in the next four to five years**

decrease in demand for self-pay operations, they are suddenly beginning to be terribly nice to private medical insurers.

Mike Izzard, chairman of the Association of Medical Insurance Intermediaries (AMII), says: "I have picked up anecdotally that NHS business with large groups is decreasing and hospital groups are cosyng up to medical insurers to plug the hole. So we may start to get better deals now that the pendulum is swinging the other way.

"Medical inflation is running at 8% to 9% and, if you strip out the high-end cancer drugs, most increases are driven by the hospital chains and by consultants. So it is a good thing that various insurers are saying that hospital groups are talking to them purposefully again and are proving easier to negotiate with."

Importantly, this "cosying up" is not just being confined to Bupa and AXA PPP healthcare, who have become synonymous with grandiose announcements about how their economies of scale enable them to secure more attractive rates than their smaller counterparts – who have in turn prided themselves on their ability to bridge the gap through more pro-active and streamlined claims management.

Howard Hughes, head of marketing at Bristol-based PMI provider BCWA, says: "The hospital groups are clearly realising that it's in their interests to give some support to smaller players to avoid the duopoly we used to have. Over the last year or so the hospitals have certainly been keen to talk and we are having very positive conversations with them."

In addition, if Choose and Book business starts to significantly outweigh other joint NHS/private business it could actually spell good news for hospital groups and insurers alike. Hospital groups enjoy more flexibility through Choose and Book because, instead of having to block book, they can merely use the NHS when they have vacancies that need filling. Making more efficient use of their



A nurse at the BMI Hospital Meriden. The 52-bed facility in Coventry is the latest addition to BMI's nationwide chain – the largest hospital network in the UK

hospitals should hopefully enable them to offer more attractive deals to insurers.

Such a development would be music to the ears of anyone concerned about medical inflation. Although the emergence of hospital groups to replace a vast range of individual independent hospitals has led to insurers benefiting from a more professional negotiation process, it is questionable whether it has resulted in them enjoying better value. The fact that some of the hospital groups are backed by private equity organisations which require a significant return on capital is, in particular, considered a major problem.

#### VIRTUOUS CIRCLE?

Another potentially important development could be the efforts being made by Circle to become a major hospital group. Its revolutionary approach could work wonders for medical inflation but although the company has talked the talk it has not yet walked the walk.

Circle, which entered the UK market in 2004, currently has four hospitals that are operational, eight potential hospitals that have received planning permission and a further half a dozen pending planning permission. Its aim is to build around 30 hospitals in total during the next four or five years.

The key difference from other hospital groups is that

Circle is co-formed, co-owned and co-run by its clinicians. Consultant partners commit to bringing a percentage of their private practice to their Circle hospital, once it has opened, for an initial period of two years and they contribute to the planning and design of the hospital to reflect the procedures and equipment that they and their team require. Consultant partners without significant private practice are also able to receive shares for contributions to developing and delivering services, clinical governance and further partnership development, and all GP partners are allocated shares in return for a commitment to the group.

Ali Parsa, managing partner of Circle, says: "We basically created the group because we felt that the provision of public and private care was fundamentally unsustainable. The hospitals the others are using are around 30 years old on average so no wonder the costs of healthcare are going up, and most of them are three star hotels at best. We have built a series of five star boutique hotels to redefine expectations and the first ones will be starting in November 2009.

"Partnership is our DNA. We believe that the collective intelligence of a network of many will always be smarter than any small group of executives, and we are committed to enabling clinicians to contribute to the future of healthcare. Like other professional services, healthcare should be run from the bottom up and ownership of the decision making process should lie with the professionals who are closest to the patients. The infrastructure and technology used also need to be redefined."

Parsa continues: "What we are doing could eventually help the costs of PMI because we are creating lower-cost hospitals that create better value. But we don't believe PMI costs are sustainable under the models currently used by the other hospital groups. Unless they change their cost bases there is nothing insurers can do, and the hospital owners can't do anything because they are mortgaged to the hilt and locked into very high prices."

#### THE MAJOR PLAYERS

There are now some significant new names among the major hospital groups, due to acquisition as opposed to the achievement of any earth shattering rates of organic growth. Nevertheless, BMI Healthcare, which acquired seven hospitals from Nuffield Hospitals in February 2008, continues to be the largest group with private hospitals in 58 UK locations. ☐

