

Industry doesn't shout loudly enough

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When it was reported, mistakenly, that he was in grave health, Mark Twain famously wrote to the New York Journal and to friends saying: "Reports of my death are greatly exaggerated".

The PMI industry has been having a few "Mark Twain " moments of late.

Predictions of our demise have been several. For a while the Government was keen on saying that advances in genetics would lead to the death of PMI. An argument promoted despite strong evidence to the contrary. PMI, it was said, would become either too expensive if your genetic profile indicated a pre-disposition; or unnecessary if it didn't.

The BMA recently forecast the collapse of the corporate sector.

The Guardian said that market forces were going to kill off private healthcare.

And a number of people have said it will be irrelevant because of the improvements in the NHS.

On that basis, you would be forgiven for thinking that in a couple of years this conference will be a far more modest, almost intimate affair, with Willy Laing, Healthcare Market News, me, Richard Walsh and a few others gathered in the corner of a pub.

Attractive though the pub idea is, I don't accept those predictions and this morning I will explain why.

However, we would be foolish not to recognise that the market *is* in a period of significant change: arguably the most significant period of change that we've seen. An improved NHS *will* demand that we show demonstrable points of difference between what we offer and what they offer.

The market – particularly the corporate market - is very, very competitive. Customers are increasingly more demanding. And of course, they all want it cheaper. We ignore all that at our peril. This morning I will share some of these pressures with you in more detail and offer some thoughts on how we might respond.

But first I want to look briefly at what the sector as a whole delivers because I think people need to be reminded of the contribution that the industry makes to the healthcare landscape. It's frequently overlooked and, if it is acknowledged, it is done so grudgingly and in an ideological context, which obscures the benefits we deliver.

Put simply: PMI is not just a perk for management or a queue-jumping mechanism for the middle classes. It's an important contributor to the nation's healthcare – and to the profits of UK PLC.

Let's ignore the ideology and look at the facts:

- The independent sector takes an enormous weight off the NHS by treating nearly a million patients a year. Because of it NHS waiting lists are roughly half what they would be otherwise.
- The sector saves the NHS £700m a year. That's three NHS hospitals or nine PCT's, the size of Sedgefield, the Prime Minister's constituency. The tax revenues alone that we pay to the Exchequer would fund 40,000 newly qualified nurses.
- When the Government was able to announce a substantial reduction in waiting lists for heart operations recently, 80 percent of that had been achieved by the independent sector
- The PMI industry sustains private hospitals and the NHS is looking to private hospitals to deliver 15 percent of elective surgery.
- Last year, PMI saved businesses 2.5 million working days that would otherwise have been lost to illness, saving businesses, conservatively, £325 million.
- The PMI market is worth £2.2bn a year, which adds substantially to public expenditure on health.

A recent survey by Manson Warner Healthcare asked UK employees what was the most attractive benefit their company offered. Twenty-nine percent said healthcare. It beat the pension and the company car.

When asked what benefits people would like to see introduced by their company, nearly a third said PMI — that was twice as many as its nearest competitor.

We clearly have a proposition that people value and one that makes an important contribution at several levels: which brings me to my first, important point. We need to say so more loudly and more often than we do and this may be more important than usual in the coming months. One worry I have in this respect is that as we approach a general election where health will figure prominently and the two major parties bring out the heavy artillery, the sector will get caught in the crossfire.

We still occasionally hear predictions that genetics will make us unaffordable or unnecessary, even though the science clearly suggests otherwise. And the Chancellor was recently heard to remark that there are only two options in health: The NHS option or the American model. A clear attempt, it would seem, to alarm. And we still hear sound bites that describe the private health sector as covering you for everything except anything you've got.

What we hear less of is the fact that the private sector offers choice – something we are told is very high on all politicians' agenda.

And that without the private sector, waiting lists would be twice as long as they are.

Or that many of the private hospital providers from whom the Government wants support, rely in the main on their PMI patients: if the PMI patient disappears, so does a lot of the capacity that is supporting the NHS.

Just as the old antipathies between public and private in the area of provision are increasingly being eroded, so I hope, will the antipathy towards the funding side.

And if it helps those who may not be inclined to call a truce, our research tells us that by maintaining old prejudices, they are increasingly out of step with the electorate. Ninety-three percent of people we polled recently have no objection to private hospitals treating NHS patients if it means faster treatment at no extra cost.

More crucially, two thirds rejected the idea that it meant the beginning of the end for the NHS and the same number rejected the idea that it went against the principles of the NHS. This tells us that in the public's mind and on the provision side at least; *some* of the old prejudices against the private sector are eroding.

Perhaps there are slight shifts in attitude elsewhere too. Having said that recognition of our contribution is sometimes hard to find, it does sometimes come from unexpected quarters.

This is what the left of centre Social Market Foundation said recently about our sector:

"Private health expenditure is a significant and growing part of overall health spending in the UK ... it provides additional capacity and choice in the health system, has provided examples of excellence in provision and has helped pave the way for healthcare that is more responsive to individual patients".

In short, then, at two distinct levels, the country needs a thriving PMI industry. So why are so many people predicting the decline and fall of our industry?

Well, there *are* problems.

Many people think we are too expensive, many think we are insufficiently innovative. And there is no doubt that the improvements in the NHS will mean that some of our customers may lapse. Let me address that last issue first because it is so often talked about.

I do not believe the exodus will be as marked as some are predicting and some recent research that Mori undertook for us supports that belief. Some of you may have heard these numbers from my colleague Natalie Jane McDonald yesterday but they are worth repeating. The research suggested that even if the NHS met its 2008 target for reducing waiting lists, 80 percent of our customers would keep their PMI. In another piece of research almost 90% of people said that the recent improvements in the NHS have not made their PMI less valuable. We should be encouraged by that result. And what it also tells us is that quick access – although greatly valued - is not the only reason people buy PMI.

In a Populus survey conducted for the BUPA Health Debate next month, 98 per cent said that if they needed hospital treatment, their priority was clean and comfortable surroundings. And two thirds believed that this was an area where the independent sector had an advantage. Ninety-nine percent said they wanted good, alternative nursing care.

Just over half considered this was something they were more likely to get in a private hospital.

Ninety-seven per cent wanted to be kept informed about and involved with their treatment.

Here again, more people thought they would get that from us rather than from the NHS.

All of which is important and encouraging but it is only half the story. Much of what I have outlined is largely about keeping our present customers. The more important question is how do we grow the market?

Our challenge has to be to make our product more available to more people and that means make it more affordable, as well as being innovative in the shape it takes.

There will always be a market for the comprehensive PMI, but tomorrow's consumers also increasingly want straightforward and simple funding products and services tailored to their specific needs. Businesses increasingly want the same for their employees

Let's address the "affordability" issue because it's one of those perennial arguments that is always thrown at us and it's central to our ability to achieve market growth. There is a limited amount that we can do to reduce the cost of the *conventional* full service PMI product.

It's a premium product with immediate access and everything that traditionally goes with it. As Gordon Brown said when he announced his massive cash injection for the NHS: "Good healthcare is expensive".

That is not to say we haven't introduced features that *have* helped reduce the increases in premiums.

- Higher excesses

- hospital networks,
- consultant partnerships
- pre-authorisation
- improved back office systems
- and so on

But the challenge to which we haven't always risen is highlighting the relative value of what we offer. It has always seemed ironic to me that you can buy comprehensive health cover for less than the cost of a packet of cigarettes a day or the cost of a satellite TV package. But we're seen as expensive. We need to get across the value of PMI as well as the contribution to which I have already referred. This is an issue on which the industry has singularly failed. But that is not to say that we should not continue, wherever we can to reduce cost in our existing products – that's good business practice. But as new products emerge, designed to meet the demands of a changing market; products that are different in design, then affordability and high perceived value needs to be high on the list of design criteria.

There are other things that we can do to respond to today's challenges and herein lie some other indications of what the future might look like. The first is a point again made yesterday by my colleague: there has to be much greater co-operation between funders and providers around this shared, single focus of market growth.

This will require greater openness and trust and acceptance of lower margins but higher volume.

It will also need us to focus on the customer and what *they* need rather than what *we* think they need and are prepared to deliver.

And the products need to match the customers' lifestyle; and people's lifestyles change. The needs of today's 25 year-old are not the same as a 50 year-old. And today's 25 year-old has a different – and from our perspective, better – "take" on the principle of spending their own money on health.

When I look for inspiration about the future and how we might grow, I look at the market for private education. They have a free state competitor but their market is growing. And their prices are considerably higher than ours. Are there lessons for us there and if so, what are they?

Let me now move on to the corporate market. It is a market traditionally very dependent on the state of the economy and for this reason we haven't seen the growth recently that we've seen in previous years.

But there's another issue. In this market the issue of perceived value is even greater. I quoted earlier the Manson Warner research that confirmed PMI as the most sought after perk. Of course that's good news but that word "perk" may also be where the issue is. This "perk" saves UK Plc 2.5 million working days a year.

How do we move perceptions of PMI from being a perk, an "expense" to being a business investment? For greater "buy in" from customers, we have to express the value of PMI in a very different way in the future to the way it is expressed now.

PMI has traditionally been an "expense", driven through HR, by the need to keep remuneration packages competitive. It's also seen traditionally by the Finance Director as a prime cost reduction candidate when the going gets tough.

We can break this cycle if we find ways of expressing the value added, in terms that the FD understands. We have to relate the contribution that PMI makes, to the profit line not the cost line. We know from the CBI that sickness absence costs UK Plc £13 billion a year.

We can only affect a small percentage of that – in truth we probably don't know how much and we might be surprised by the answer if we did - but it's a very big number to aim at.

We need to understand better the value equation and then articulate it well. Later today you will hear from Coors the brewer who have been involved in an innovative pilot with BUPA which I think begins to add substance to this argument in a very powerful way. Within the learning from that pilot, I think, lies a future model for added value corporate PMI.

Those then, are some of the issues and challenges that I believe confront the sector. I hope too that there have been some glimpses of some of the possible solutions. In closing let me try and summarise:

The sector is in a period of significant change that will require us to address questions about cost, about improved value, about perception, about differentiation and about innovation.

The fact that health is now one of the major political and social issues should, I believe, be seen as an opportunity, rather than a threat. And we start from a strong base. We have a core proposition that is valued by our customers and is increasingly making a contribution to the broader healthcare landscape and to UK Plc.

There is more opportunity in that equation than threat. In short, reports of our death *are indeed* greatly exaggerated.