

10 february 2016: Hearing Aids

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The *Autorité de la concurrence* shall begin, at its own initiative, gathering information in order to assess the state of competition within in the hearing aid retail sector, before publishing any recommendations it considers necessary in order to improve the situation.

> *Version française*



Having observed low levels of hearing aid use among French citizens and the elevated cost of devices, the *Autorité de la concurrence* has decided, at its own initiative, to hold a consultation in order to evaluate the state of competition within the sector and to identify any obstacles to the lowering of prices.

In order to gather the necessary information, the *Autorité* will investigate all those active in the sector (including manufacturers, intermediaries, distributors, prescribers and consumers). A public consultation on preliminary findings is due to be held over the summer. The opinion to be handed down by the *Autorité* in December should enable an in-depth diagnosis of the sector, and will be accompanied by recommendations that the *Autorité* deems appropriate in order to improve any instances of dysfunction observed, and in doing so improve the state of market competition.

A sector held up by demographics, with prices remaining high

In France, several million people suffer from some form of hearing loss. However, of around 4.4 million people who might benefit from a hearing aid, only

1.5 million are equipped with a device, putting the rate of use at 32% (compared to 41% in the U.K.). One of the reasons cited for this low rate of uptake is that the cost of the devices has remained consistently high¹. Indeed, the cost of a hearing aid costs an average of €1550 per ear, or €3100 for a set (which is generally required). These prices include purchase of the device and patient monitoring over the following 5 years. The amounts involved can discourage consumers, especially given that the portion of the cost covered by the national health provider (*Assurance maladie*) and additional insurance providers remains comparatively low, leaving the average cost to the patient at around €1100 per ear.

The Autorité will focus particularly on the following issues:

Is there sufficient competition between manufacturers?

In the wake of a wave of mergers and acquisitions during the 1990s, the current market has become highly concentrated. There are only 6 manufacturers in the world, 4 of whom share over 80% of the global market.

- As overly concentrated markets are by nature restraining competition, the *Autorité* will analyze the role played by manufacturers in settling hearing aid prices, as well as any improvements that can be made in order to improve the earliest stages of this market. The *Autorité* will also take steps to ensure that competition has an effect on other aspects of the market other than price, such as technological variability between devices.
- The *Autorité* will also study the risk of economic dependence between hearing aid distributors and manufacturers resulting from this concentration effect, and will analyze whether this poses a significant obstacle to independent hearing instrument providers accessing the devices.

Are the margins earned by hearing instrument providers justified?

While the margins earned by manufacturers and central purchasing agencies, which act as intermediaries between manufacturers and distributors, appear both at first glance and upon closer inspection to be moderate, profit margins for

hearing instrument providers are much more lucrative. A report issued by the Cour de comptes (French Court of Audit) indicated that these specialists apply a multiplication coefficient of 3 to 3.5, to the purchase cost of the devices. As a result, the gross margin retained by hearing instrument specialists can vary from €650 for a basic device to €1250 for a high-end hearing aid (a gross margin of around 70 - 75%).

- The *Autorité* will examine whether or not this level of profitability is economically justified, particularly with regard to patient monitoring services provided by the specialist.
- As costs to patients remain high, the *Autorité* will study possible means to lower the amount payable, notably with regard to breaking the link between the purchasing of devices and the provision of patient monitoring services recently brought into force by the law.

Is the current Numerus Clausus appropriate?

Hearing instrument specialists currently enjoy a monopoly on device sales. There are currently 3065 hearing aid providers active in the French market. In 2015, the *numerus clausus* for new students in the profession was set at 199, despite the fact that there appears to be a shortfall of professional services in relation to the needs of the population. Such a shortfall would necessarily translate into higher salaries, which would, in turn, contribute to higher device costs.

- The *Autorité* will analyze the impact of this *numerus clausus* on market competition and the relative cost of hearing aids.

Are consumers given adequate information?

Owing to their technical qualifications, hearing aid providers are usually the only adequate source of information necessary to satisfy patient needs. As medical prescriptions indicating the need for a hearing aid do not specify which type of device should be sought, providers may be tempted to lead consumers towards a higher-end product.

- The Autorité will study which measures can be taken in order to improve the levels of information available to consumers and reduce the asymmetry of information from professionals.

How can we encourage competition between different types of hearing aid provider networks?

Today, distribution networks operated by healthcare cooperatives are revitalizing the way the market works. They are able to obtain reductions of around 15% on the cost of hearing aids due to bulk buying strategies, centralized purchasing and lower advertising costs.

The **Autorité** will ensure that there are no unjustified obstacles to the development of networks with enhanced levels of competition, and will see to it that all conditions are met to guarantee that consumers receive the best possible value for money.

¹ See reports published by the French Cour des comptes (French Court of Audit) in 2013, IGAS (French General Inspectorate of Social Affairs) in April 2013 and UFC-Que Choisir (consumer organisation) in September 2015.

> See referral for Opinion 16-SOA-01 of February 3rd 2016 on ex officio proceedings to reach an opinion on the hearing aid sector.

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