14 December 2016: Sector-wide Inquiry on Hearing Aids- the Autorité's Findings

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The *Autorité* recommends separating the initial purchase of the hearing aid (including immediate fitting and setting during the first year) from the purchase of subsequent follow-up services.

It also proposes removing the numerus clausus that limits the number of students graduating as hearing aid specialists each year, or failing that, raising the limit to expand access to care.

The aim of these measures is to enable more patients to be fitted with hearing aids by stimulating competition and without affecting the quality of care.

Overview

Noting the low rate of hearing aid ownership in France, partly attributable to the high price of such devices, the *Autorité de la concurrence* conducted a wide-ranging industry inquiry to define any market anomalies.

In the light of its inquiry, the *Autorité* has identified two main obstacles to the development of competition. Firstly, sales of hearing aids and related services are linked, preventing patients from choosing freely between differentiated service offerings. This also obliges patients to pay "up front" for the various fitting, follow-up and inspection services that will be provided over several years. Secondly, the cap on the number of hearing aid specialists trained each year restricts the supply of services and impedes recruitment of qualified personnel by new market participants.

In the opinion published today, the *Autorité* sets out two main recommendations:

1) To bring down the "entry ticket" (i.e. the immediate outlay required in order to obtain a hearing aid) and to ensure that the available offering addresses patients' needs more effectively, the *Autorité* proposes to enable the sale of the initial hearing aid solution (device + initial fitting and services during the first year) to be dissociated from follow-up services provided in subsequent years. By unlinking these two components, patients should be better able to compare differentiated service offerings corresponding to their needs.

2) The *Autorité* also recommends removing - or failing that, increasing - the numerus clausus that determines the number of hearing aid specialists graduating each year. Such a measure may enable the more aggressive new entrants to expand their networks across France. By stimulating competition, the additional supply would drive down prices, which would in turn facilitate the effective access of the patients to hearing aids.

Maintaining quality of care and customer satisfaction were priorities for the *Autorité* throughout the inquiry, which aims to facilitate hearing aid take-up by hundreds of thousands of patients. On this topic, certain industry professionals consider that unlinking services would create health risks due to the non-use of hearing aids or the absence of regular inspections.

However, the principal health risk has already materialised: a million patients currently lack a needed hearing aid. Furthermore, the aforementioned health risks may be addressed by educating patients regarding regular use of the

The hearing aid ownership rate is a public health concern

Hearing aids in France are expensive, costing around €1,500 per ear. The French national health provider (*Assurance maladie*) contributes €120 towards the cost of each hearing aid, and additional insurance providers reimburse €400 on average, leaving a residual cost to the patient of approximately €1,000 per ear (66% of the price including VAT). This corresponds to a total patient outlay of €2,000 when both ears are fitted (binaural hearing aids). In comparison, French patients are far less well reimbursed by the national health provider than their counterparts in neighbouring countries such as Germany (€785), Belgium (€666) or Italy (€600).

Faced with the high cost, many French people make do without hearing aids. Half of the six million French citizens suffering from hearing loss would benefit from hearing aids. However, only slightly under two million of these three million suitable patients were estimated to have hearing aids in 2015. In this respect, France lags behind countries such as the United Kingdom and Denmark: the ownership rate in the hearing-impaired population is only 34% in France, compared with 41% and 48%, respectively.

The fact that a million patients lack hearing aids is a public health issue. Hearing loss frequently leads to gradual isolation (reduced communication and social interaction), increases the risk of depression, cognitive decline (including Alzheimer's and memory loss) and falls.

The need to redress the current ownership deficit is underscored by the fact that the cost of untreated hearing loss far exceeds the cost of fitting patients with hearing aids. According to a French study[1], improving the hearing aid ownership rate in France would avoid more than €2 billion in public expenditure.

A dynamic market poised for growth driven by population ageing

The hearing aid industry is dynamic and worth approximately €1 billion. The market for hearing aids has been growing strongly for around 20 years, and is currently being stimulated by new entrants (especially optical retailers) and care networks. The average annual market growth rate of 6% is being driven by an increasing, and ageing population; hearing loss being often age-related. This trend is set to intensify in the coming years: the share of over-65s in the

population increased by 23% between 2000 and 2014 and this category will account for nearly a quarter of the total population by 2030.

Obstacles to French patients being fitted with hearing aids and possible solutions proposed by the *Autorité*

The *Autorité* studied the complete hearing aid distribution channel, from manufacture to sale of the devices and related services. This examination revealed certain anomalies in the downstream part of the channel.

- *The pairing of the device with fitting and follow-up services*

Although providing patients with a standardised quotation itemising the price of the device and those of the related services is a legal requirement, in practice, patients are billed for a package that encompasses the hearing aid together with all related services, in accordance with the reimbursement practices of the national health insurance system. As a result, at the time of purchase, the patient pays not only for the hearing aid but also for the various follow-up services and efficacy checks to be performed by the hearing aid specialist over the device's lifetime (5-6 years, on average).

There are several drawbacks to this system based on a paired service package:

- In paying up-front for follow-up care, patients pay for services that may never be provided, if the centre closes or the patient moves to a different area.

- The pairing makes it harder to compare prices between hearing aid specialists, and in particular the "services" component, in some cases resulting in artificially-itemised device and service costs. In this respect, the price survey conducted by the *Autorité* revealed that the share accounted for by the hearing aid varied significantly between suppliers (ranging from 46.6% to 75.2% of the sale price inc. VAT).

- Furthermore, the package price is calculated based on an estimate of the average time that the hearing aid specialist will devote to their patients, whereas in reality, each patient has specific needs. Ultimately, the " mutualisation " of costs results in 35-40% of patients paying more than they

should, as they do not consume all invoiced follow-up services.

- Lastly, the pairing forces patients to select a single supplier to provide both the hearing aid and the follow-up services, even if they are unsatisfied.

RECOMMANDATION

Enable patients to dissociate the initial hearing aid purchase (device + fitting during the first year) from the purchase of follow-up services in subsequent years.

This proposal offers several benefits, enabling patients to:

• Significantly lower the entry ticket for access to a hearing aid, as the patient would only have to pay, for now, the price for the device and for fitting and follow-up during the first year of use (potentially cutting the upfront outlay by €500);

• Save the cost of services paid for but not consumed if they relocate or the centre closes ;

• Choose a different hearing aid specialist for follow-up care, which would encourage hearing aid specialists to lower their prices and improve the quality of services provided in order to retain patients or win new business.

• Change their hearing aid specialist more easily if they are unsatisfied with the quality of service after the first year.

Decoupling the two components would provide an incentive for hearing aid specialists to differentiate their follow-up care packages, tailoring them to patients' individual needs (and in particular, according to the complexity or progression of their hearing loss), and to provide less expensive offerings for a significant proportion of patients.

To enable such division, the *Autorité* stresses the need to first adjust the reimbursement practices of the national health provider (*Assurance maladie*), which still links hearing aid sales and services.

• *Numerus clausus*

The principle of setting a quota for hearing aid specialist graduates (equivalent to the numerus clausus for graduate doctors) may be justified to prevent overconsumption of services, leading to inflated health care expenditure that must subsequently be reimbursed by national insurance organisations. However, in this case, the justification for a quota is debatable, due in particular to the high residual cost for patients, which is a strong disincentive to "overconsumption".

Nevertheless, in 2015, the public authorities introduced a quota of 199 hearing aid specialist students for the 2015/2016 academic year (and 200 for 2016/2017). Regulating supply in this way raises a number of issues. Restricting access to the profession is causing some of the more dynamic market participants to experience difficulties in recruiting new staff, hampering their growth. In addition, the current population of qualified hearing aid specialists is having trouble keeping pace with the sector's growth, as the growth in sales is outstripping the increase in personnel.

RECOMMANDATION:

Remove – or failing that- increase the numerus clausus

As labour costs represent 30% of revenues of hearing aid specialists (€534 per hearing aid, according to the consumer organisation *UFC Que choisir*), balancing supply and demand should have a positive impact on hearing aid prices. Doing so would enable new entrants to develop their businesses more easily, stimulating competition. Stiffer competition should lead to lower prices, in turn generating higher demand, as patients who had previously foregone hearing aids for financial reasons become more inclined to invest in them.

In the event that the public authorities decline to remove the numerus clausus, the *Autorité* proposes that the quota be revised upwards annually, to reflect increasing demand. This measure will need to be accompanied by a proactive policy to increase hearing aid specialist training capacity, which is currently limited by the number of training institutions and by limitations relating to the organisation of mandatory internships at hospital ear, nose and throat departments.

[1] Study on the Economic Impact of hearing loss in France and developped countries (*Impact économique du déficit auditif en France et dans les pays développés*), March 2016, Jean de Kervasdoué and Laurence Hartmann.

> For more information, refer to the full text of Opinion 16-A-24 of 14 December 2016 regarding the functioning of competition in the sector of hearing aids

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