How to cope with rising healthcare price tags

Asia rolls out game plan as healthcare costs spike

Asian economies are aggressively dismantling regulatory roadblocks to attract investment, cover healthcare expenses, and boost R&D.

It's no secret that China is a regulatory nightmare for many healthcare companies as it takes at least two years for most drugs and medical devices to obtain the necessary licences to be sold nationwide. Pharmaceutical companies also face significant price pressures to slash bidding prices, sometimes by as much as 30%. As if these weren't bad enough, the healthcare system is highly centralised and large hospitals are over utilised.

But as its population ages and healthcare spending soars, Chinese regulators have finally recognised the need to overhaul the system. "The goal of the recently launched healthcare reforms is to enhance the quality, coverage, and sustainability of the Chinese healthcare system," notes **Michael Custer**, an analyst with Solidiance. He explains that the reforms will likely result in "daunting" cost challenges for both local and multinational healthcare firms. Despite this, China remains an attractive market because the demand is big enough for multinationals to find and carve out profitable businesses with the right strategy and understanding of the market.

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China is not alone in rolling out long-overdue healthcare reforms. Across Asia, countries are scrambling to overhaul their healthcare systems, most of which are ill-equipped to deal with the challenge of rapidly changing demographics.

Targetting multinationals

A key goal of healthcare reform is attracting more multinational companies to set up shop in developing Asian economies. "Markets across Asia are continually acting to increase the competitiveness and attractiveness of the life sciences industry for foreign multinationals," says **Andrew Chen**, Asia-Pacific life sciences transactions co-leader, EY Shanghai.

Chen notes that Asian countries have rolled out a multi-pronged approach to boost their respective healthcare sectors. For instance, India has undertaken several initiatives, including encouraging public-private partnerships (PPPs) in R&D projects and increasing focus on infrastructure to establish the country as one of the world's major pharmaceutical innovation hubs. Meanwhile, Australia and China have implemented sector-focused innovation plans to boost investments, along with reforms to expedite drug approvals.

Other Asian countries are dealing with problems of counterfeiting and patients' inadequate trust of the industry. For example, Indonesia and the Philippines are adopting stringent measures to contain the spread of counterfeit medicines, whilst Australia and South Korea are increasing transparency between pharma-physician-patient relationship through mandatory physician payment disclosures and hefty penalties. Similarly, India is strengthening its pharmacovigilance programme by making the pharma companies take on more accountability for drug safety. Apart from dealing with structural issues, Asian countries are also steadily moving towards digitalisation. "The life sciences industry in the region is also inching toward digitalisation, with both industry and government playing an important role," Chen says.

A fine example is South Korea, which is working towards becoming a global biotech and medical industry hub with focus on biosimilars, stem cell therapies, and 3D printing of medical devices. Meanwhile, Taiwan has dedicated an initiative to enhance its position as a major biomedical market in Asia, and Vietnam has lifted the cap on foreign investments in the pharma sector. Meanwhile, China's government is developing a national digital platform that will enable data sharing and is introducing digital medical identification and signatures. At the same time, pharma companies in India and the Philippines are developing mobile applications to enhance patient experience and to educate different stakeholders.

Establishing digital health hubs

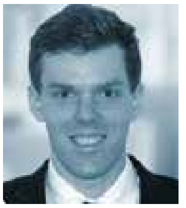
Asian economies are correct in attempting to attract more multinationals. **Chee Hew,** senior principal for Asia Pacific at Clearstate, a business of The Economist Intelligence Unit (EIU), argues that multinationals have a critical role in driving innovation and the application of technology to healthcare challenges on a large scale. "In an environment in which both startup firms and technology giants have a strong presence, healthcare multinationals are well positioned to drive innovation and the application of technology to major healthcare challenges," Hew notes.

"The value offered by digital healthcare lies in the way in which companies can apply recent breakthroughs in science and technology to different healthcare challenges to bring value to users," EIU says. Healthcare ecosystems are changing, with more intelligent health enterprises emerging to drive smart healthcare in ways that improve patient outcomes and bring down the cost of healthcare delivery. Empowered by technology, patients and consumers are becoming more active in healthcare. These factors will drive the emergence of a healthcare industry that will be vastly different from that in the past.

"Pharmaceutical and medtech multinationals have the domain knowledge and influence that can enable them to lead innovation and application of technology at scale that will catalyse the transformation of entire healthcare ecosystems, thereby speeding up the adoption of digital health around the world," Hew notes. Companies have tended to create digital health centres in cities with high concentrations of technological innovation activity, such as San Francisco and Boston in the US. In Asian markets, by contrast, digital health efforts are focused on achieving basic standards of care, such as supporting affordability and access to care for people living in rural areas and places with a shortage of doctors who can deliver more complex care. "For digital health to take off, there must be a fundamental shift in how stakeholders collaborate," Hew says. "Multinationals can seed change in a number of different markets more effectively and quickly by setting up centres for digital health in strategic locations with high digital density, leading to the formation of digital hubs."

Cost is king

All these reforms are focussed on a single goal: lowering healthcare costs across the board. "Change is the new normal for the global healthcare sector. However, the pressure to reduce costs, increase efficiency, and demonstrate value will continue to intensify. This shift is being fuelled by aging and growing populations, the proliferation of chronic diseases, heightened focus on care quality and value, evolving financial and quality regulations, informed and empowered consumers, and innovative treatments and technologies — all of which are leading to rising costs and an increase in spending levels for care provision, infrastructure improvements, and technology innovations," says **Mohit Grover,** Life Sciences & Health Care industry leader at Deloitte, in a co-authored report. He expects healthcare spending growth to rise to over 6% a year in 2017 and 2018. Growth in several markets, particularly in Asia and the Middle East, will be particularly rapid, driven by the development of both public and private healthcare systems. In addition, the trend towards universal health care is likely to be a growth driver in numerous markets.



Michael Custer

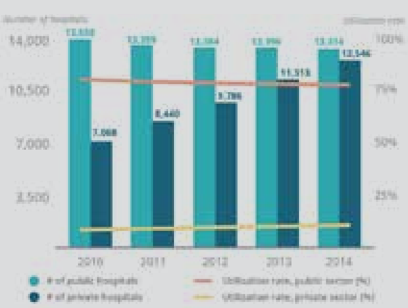
Andrew Chen

Chee Hew

The role of cost is "so pivotal" that it is at the core of the many issues — demographic, financial, operational, innovation, and regulatory — impacting sector stakeholders in the coming years. "The way forward is clear: sector stakeholders must look for ways to decrease costs, given the consensus that the current upward trajectory is unsustainable. In addition to demographic, financial, operational, innovation, and regulatory considerations, three macro issues are framing the cost discussion: sector defragmentation, the shifts from episodic care to population health management and from volume to value-based care, and efforts to deliver effective, efficient, and equitable care," Grover says.

However, whilst most people fear that increasing healthcare costs will result in negative situations, this apprehension will not necessarily come to pass. Whilst there may be administrative waste, rising insurance premiums, and expensive care for chronic diseases, increasing costs can also signal positive developments.

Utilisation and number of public and private hospitals in China



Sources National Bureau of Statistics, Solidiance