

Trends in Polish healthcare

—  — **2017** —  —

We present key trends in Polish healthcare for 2017, along with our recommendations. These trends should be taken into account by all of the system's stakeholders (the Ministry of Health, the National Health Fund, local governments and domestic and foreign private investors). They will be of major significance for the development of efficient healthcare in Poland in the years to come.



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1.



Continued reform of the healthcare system

Underfunding has been and will remain problem number one of the healthcare sector, but the problems will not be solved simply by increasing the level of funding, contrary to what might be thought. What is required is more effective management of the funds earmarked for healthcare, the identification of areas requiring investment/development in the mid- and long term, and a consensus reached with respect to the need to balance the constantly growing expectations of patients (and the growing supply of increasingly advanced medical technology) with the payer/payers' capacity.

At the same time, it is important that the reform measures should be preceded by conducting an in-depth analysis of the current state of affairs, defining the strategic objectives of the measures adopted and developing practical solutions for monitoring and rectifying the process of their implementation.

The prerequisite for success is to apply the reform to all of our country's healthcare system components (primary healthcare, outpatient specialty care, hospitals, diagnostics, long-term care, sanatorium services and rehabilitation). Indeed, the healthcare system is a multi-layered one, and its respective segments, whose role and importance are subject to rapid change, must not only cooperate with

one another smoothly, but also pursue a common strategy, focusing on areas that are high priority for public healthcare. Such an approach should help achieve one of the fundamental objectives of the reform, i.e. to increase efficiency (making it possible, for example, to develop the right proportion between the number of beds and the occupancy rate in hospitals – where a patient's stay costs PLN 300-500 per day, and the same at sanatoriums, spa hospitals and long-term care facilities, where the costs of a patient's stay starts from PLN 100 per day).

It should also be pointed out that, due to the dynamics of epidemiological, demographical and economic processes taking place in healthcare, any reform based on a long-term strategy must be subject to regular revision and adjustments as required. We expect that the coming years will bring a strengthening of the process of re-allocating funds between respective therapeutic areas (mainly due to historical re-assessment or under-assessment of respective procedures, but also due to changing costs, e.g. the prices of the technologies used or specialists' fees).

This process started in part back in 2016 (cardiology, imaging diagnostics, psychiatry) and will continue. Curiously enough, many CEE countries have launched (or are considering



launching) far-reaching analytical projects aimed at changing the understanding of the real costs of respective medical procedures (in terms of primary healthcare, specialty care, hospital care, rehabilitation etc.). The assumption is to include in those costs a relevant margin driven by many factors (as discussed later on), which will, in turn, provide the basis for setting the right level of public funding. The important thing is that the revision process will not be a one-off event, but rather one repeated on a periodic basis.

Last but not least, in order to stabilise the healthcare system, it is clear that funding, and an adequate growth in funding, should be ensured. It seems that a good point of departure would be to review all current sources of funding, i.e. the National Health Fund, the Ministry of Health, local governments, foundations and private funds, and to confirm that these are being used properly. Next, the new/alternative sources of funding that could be used to fund the reformed system should be analysed.

2.



Changes in the healthcare infrastructure

The healthcare infrastructure can be divided into two types: day-care (such as primary healthcare, outpatient specialty care, diagnostics and rehabilitation) and inpatient care (such as hospitals, sanatoriums, spa hospitals and long-term care facilities). A separate issue is full-time care at a patient's home, using new technologies (as discussed later).

The day-care infrastructure has seen major changes over the last few years, especially in facilities owned by private capital. Inpatient care still needs significant reorganisation.

In Poland there are ~800 hospitals and ~220,000 hospital beds, which gives nearly 6 hospital beds per 1000 people. This is one of the highest results in Europe. Hospitals are due for restructuring for a number of factors, i.e.: demographics, procedures being moved to outpatient care, or the required operating expenses (adjustment to the new requirements). Reorganisation may, in many cases, lead to: changing the use of some departments (e.g. changing gynaecology and obstetrics or paediatrics departments into

geriatrics departments), changing the orientation of entire hospitals (e.g. focusing on long-term care), and sometimes even closing debt-ridden hospitals. The winners may be those entities that can reorganise the fastest, and which will convince the National Health Fund to replace the current contract with one that can be used more efficiently.

In Poland there are 198 sanatoriums, 52 spa hospitals and 1800 long-term care facilities, offering 172,000 beds in those facilities. These facilities are much cheaper, while often providing very high quality health services and waiting to have their full potential used. A daily stay in such facilities costs the system from PLN 100, while the cost in a hospital is from PLN 300 to 500.

Health needs maps have been developed relatively recently in Poland, which is a very good sign. Another step should be to map the overall outpatient healthcare infrastructure and to thoroughly streamline its use. Some entities will have to be closed down, some will reorient themselves, others will gain new patients, but in general the sector as a whole will benefit.

3.



Growing healthcare costs

Healthcare costs will continue to grow, in some cases much faster than the growth in healthcare expenditure. As a result, simply by increasing the funding, but without the much-needed reforms, no improvements will be ensured, including improved accessibility and higher quality of services.

The operating costs of healthcare providers include, without limitation (based on sample entities from various segments): personnel costs (~52% of costs), costs of outsourced services, including patient meals (~24% of costs), costs of materials (~18% of costs), costs of infrastructure depreciation (~4% of costs), overhead and administrative costs (~2% of costs) and other costs, not quantified at present, e.g. costs of debt servicing.

Virtually all these costs seem to be on the increase, based on an in-depth analysis. Personnel costs especially, which is reasonable as salaries in Polish healthcare are definitely lower than in other countries. On the other hand, this document indicates a number of structural changes aimed at improving the use of funds from the National Health Fund, infrastructure, and human resources, including specialists so that they perform tasks to which they are designated and fully use their competence. The need for changes is not only about the desire to cut costs, but, most of all, to make better use of resources, which are starting to be in short supply in Poland (this goes mostly for doctors of certain specialties as well as nurses).

4.



Increasing role of data

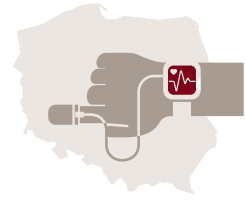
The growing role of data processing is an area of healthcare that the world is headed towards, and Poland will not escape it either.

The purpose is to implement mechanisms to enable the most detailed planning possible at the entity level, measuring performance (both clinical and economic) and rewarding the best entities, for example with additional funding. Another significant need is to develop effective mechanisms to incite badly performing entities to take corrective measures. This means implementing pro-efficiency mechanisms in the healthcare system, similar to those in place in commercial companies, but following clear principles and under the supervision of competent authorities.

Poland is not a homogeneous country in terms of salary level or the costs of outsourced services, so there's a need to develop standard indicators and relevant adjustment mechanisms (e.g. labour costs for nurses vary across the various regions of the country). Such indicators could involve the following groups: the state of the current infrastructure and future needs (quality, surface area, standard, available and missing equipment) patient satisfaction with the facility (according to differing criteria), therapeutic effectiveness or clinical indicators, and many more.

As a result, a methodology would be developed that rewards good practices, by way of the so called Overall Efficiency Indicator (OEC). The higher the indicator, the more funding entities would receive, while a lower indicator would mean less funding. Separate restructuring programmes and funds could be initiated to support weaker entities in achieving at least mid-market results.

5.



New technologies as the future of healthcare

There are very advanced technologies already available whose implementation is a solution to the problems of countries like ours which face insufficient funding and infrastructural shortcomings (requiring large investment). As a result, new technologies are an opportunity for the patients:

- a) Telemedicine/ teleconsultation services using the available tools are being slowly rolled out, though faster regulatory change and public funding for these solutions is necessary. Poland has all the resources necessary to develop telemedicine: technologies, private capital willing to invest, and patients expecting new solutions. Ironically, no extra funding is needed but rather the existing funding needs to be directed to cheaper and more effective telemedicine solutions.
- b) The growth of consumer healthcare services, which consist in providing services in the existing customer service points such as pharmacies, drugstores, retail chains and others. Services can be provided directly (in dedicated sites) or through teleconsultation. Many examples from developed countries show the savings that can be generated.
- c) Data is a powerful source of information, but without the adequate IT systems we are not able to take full advantage of it. We need systems and the digitalisation of medical data. On that basis, data mining and artificial intelligence provide opportunities that can offer breakthroughs in diagnostics, speeding it up exponentially and minimising the errors committed.
- d) Biotechnology, with few exceptions, has been developing in Poland to a limited extent. This is also the future of healthcare, especially in prophylaxis, diagnostics and pharmaceuticals. It is necessary to create conditions to ensure funds for pre-clinical and clinical trials, to enable the development of this cutting edge field in Poland.

6.



Increased role of healthcare providers' operating efficiency (e.g. lean management)

In the mid- and long-term perspective for the healthcare sector, we are looking at improvements in the operating efficiency of hospitals and other entities (though to a lesser extent), which have many times been rescheduled for later. This is the optimum direction for change, considering the limited funds and the hospitals' revenue side being limited nearly by default (at least for entities relying on limited contracts with the National Health Fund, and in future, on the planned budgetary funding).

Management tools offering an opportunity to improve the operating and cost efficiency include: centralised purchasing functions, centralised support functions, process optimisation – so – called 'lean management', the consolidation of entities and introducing performance-based pay. One should also consider initiatives to consolidate support functions in public hospital networks, which would significantly contribute to improving their profitability.

The first example could be the economies of a single hospital compared to a group of many hospitals. Our experience shows that the economies of scale achieved in areas such as joint purchasing, IT centralisation, centralised administration and support functions help

generate cost savings in the order of 10-15% p.a. (for groups made up of 10-20 entities, for larger groups these savings are even higher). With the hospital care budget of ~PLN 40 billion, and the costs of activities in the above described areas amounting to ~PLN 16 billion, the annual savings would be ~PLN 2.0 billion. By earmarking the savings obtained to the provision of services (illustrative scenario), it would be possible to eliminate queues of those waiting for cataract treatment procedure, to cover the costs of insulin reimbursement and to fund ~10,000 additional full hip replacement procedures.

Another example is even more obvious, as it was developed in western countries – it is process optimisation, for example using the lean management methodology. Even putting aside cost savings, as they are not always of the greatest importance, there are a number of other benefits: better results of patient treatment, greater patient satisfaction with their stay in medical facilities, happier and more motivated staff, which can devote all their attention to what they specialise in without wasting time, for example, on documentation or on areas we describe in our methodology as "non-value adding for patients", which often even reduce the value of employees.



Senior care or long-term care

The number of people aged 65+ in Poland will increase by approximately 3 million in the coming 20 years, to 8.5 million people. The growing demand for long-term care services is a trend in every ageing society around the world, but we can expect particularly dynamic growth in Poland (~6% p.a.). The drivers of that growth include: greater incidence of chronic diseases, changed family model and the growing number of one-person households. The opportunity in this situation is also to use the potential of foreign patients. Much lower prices, good quality and new investment projects mean that Poland may become a “hub” for European pensioners.

It is time to develop a comprehensive action model, both in a micro- and macroeconomic (systemic) perspective:

- a) putting the current funding in order and ensuring additional funding
- b) developing action models (clear criteria) for respective entities, depending on the function, location, patient type and other
- c) creating a network bringing together entities of that type and performing a dedicated reorganisation of their operations
- d) identifying terms of partnership with the private sector, which is already investing in that segment (both domestic and foreign entities)
- e) developing clear terms of patient flow (who refers the patient, how the queue works, what the necessary criteria are)
- f) designing the entire licensing and certification system, organising the quality standard system etc.

8.



Medical tourism – an area of very high potential

Medical tourism is developing in CEE at the rate of 12-15% p.a. Nearly 400 thousand foreign patients a year are already coming to Poland (both from western and eastern countries). These are, however, mainly patients of dental clinics, spas, medical spas or long-term care facilities. The potential is much higher, especially when it comes to specialty medicine, namely plastic surgeries, obesity treatment, cardiology, orthopaedics, oncology and ophthalmology.

The foreign hospital patient market in CEE is estimated at approximately PLN 400 million, which makes ~26,500 hospital patients per year, with Poland's share of that being around 6-8,000. The development of medical tourism in Poland in those areas requires capital and the right patient acquisition strategy. Turkey may be an example to follow, where this area of the medical sector has been highly developed with support from the government.

9.



Development of the private healthcare sector

The private sector is predominant in providing primary healthcare, out-patient care, rehabilitation, long-term care and spa care. Only hospital care remains the province of public service providers. Observations show that the profitability and quality of the services provided is higher in those areas where private capital is involved in developing a given segment. Naturally, the role of the state is and will remain significant in securing hospital care, which is of such high importance, but the participation of the private sector (in various forms) seems unavoidable in order to achieve the expected results in a short time horizon.

We expect that the reform and further development of healthcare in Poland (not only thanks to medical companies, but also to those operating in telecommunications, IT and transport, etc.) will have to rely on the private-public partnership structure. There are many international examples

of such successful solutions, one example being the US Centene Group, which invests in healthcare in Spain under the name Ribera Salud.

In Poland, we also need to develop a system of the state's partnership with private investors in healthcare, as this will bring benefits to all. Our analyses indicate that private capital is reluctant and highly cautious about entering our market at present. The necessary elements: predictability, stability and openness to talks must be fulfilled. The last two years have seen a marked drop in the number of M&A transactions in healthcare. Given the lack of openness to reforms involving private capital, this trend may deepen.

In the coming years, the only transactions may be attempts to sell healthcare providers by owners who have given up the hope of further business growth.

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