



HEALTHCARE EXECUTIVE ALLIANCE  
SPECIAL EDITION ON E-LEARNING

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# Making Affordable Healthcare Profitable

A win-win for the simultaneous involvement of both public and private funding in the provision of global healthcare.



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In a casual suburb of Hyderabad, India, a growing family is struggling to cope with the main breadwinners' gastrointestinal disorder. Help arrives from a new concept of day care where major endoscopic surgical procedures can be done without need for hospitalisation.

In Ho Chi Minh, a Vietnamese farmer gains access to the latest cardiovascular surgery techniques at a highly accredited hospital at a fraction of the cost previously possible.

In a little community outside Jakarta, Indonesia, a small merchant whose children have been sickened by hepatitis from a heavily polluted river is distraught. He finds help through a local company that focuses on making the world's most innovative drugs accessible, and affordable, to those who are most vulnerable.

Almost three billion people such as these form the base of the economic pyramid in Asia. This large segment of humanity not only faces significant and unmet medical needs but also lives in relative poverty. Their incomes are less than 3.00 US dollars a day and yet together they have substantial purchasing power: a 3 trillion US dollar consumer market. The businesses that serve the families above are some of the investments that we, at Quadria Capital, have made. What is clear is that our businesses are making an enormous social impact on the sustained development of these communities. What is less obvious is that these investments have the power to generate superior returns for our investors.

## Demand Supply Gap

Countries in South and Southeast Asia account for approximately 31% of the world's population and almost 45% of the world's disease burden. Yet the region commands only 5% of the global healthcare expenditure.

Historical under-investment has translated into an ageing, under-developed and over-stretched healthcare system across Asia. By any measure the statistics are stark: less than 0.5 beds per 1000 against

the WHO minimum recommendation of 5 and only 0.3 physicians per 1000 versus 4 in the developed world. Industry estimates suggest a funding gap of over 60 billion US dollars per year to scale healthcare solutions and finance access. But public healthcare financing is not growing fast enough to overcome the funding gap – and sometimes not growing at all. Public health infrastructure is severely underfunded, hospitals are overcrowded with long waiting times and the quality of service is low.

“ WE FIRMLY BELIEVE THAT OUR GOALS OF BOTH “DOING GOOD” AND “DOING WELL” ARE NOT JUST COMPATIBLE BUT IN FACT MUTUALLY REINFORCING ”

Unlike Europe, governments in Asia have sought the active participation of the private sector to lead the way. Today, of every 10 new hospital beds built in Asia, 7 are being built by the private sector. Private capital has become essential to increase the efficiency of healthcare; meet the capital needs for new and upgraded infrastructure and to reduce the strain on public resources.

The nature of healthcare need in these markets has also evolved. With a large, growing and increasingly urbanised population base, the focus is no longer only on infectious diseases but on the same chronic diseases that impact the developed world. South Asia is now the global capital for diabetes and cardiac disease. East Asia has now a greater prevalence of colon cancer than anywhere else in the world.

To compound the difficulty of creating an effective healthcare ecosystem, the clear majority of patients in

Asia pay out of their pockets for healthcare. In South Asia, over 90% of a 1.6 billion population regularly pay cash to access healthcare services. Less than 5% enjoy private healthcare insurance and universal healthcare coverage remains nascent. The consequences of disease and the economic hardship of its financial burden have often been the most common reason for personal bankruptcy.

### Innovative Business Models

These market dynamics form the catalyst of not only our own investment strategy but have spawned the emergence of innovative, cost driven healthcare business models and solutions that are transforming the delivery of effective healthcare in Asia.

New business models that substantially lower the cost of healthcare, without compromising clinical quality, have emerged to satisfy significant unmet medical need. For instance, HealthCare Global Enterprises (HCG) - India's largest network of cancer hospitals - has been able to bring cutting edge technologies like PET CT, MRI and Cyber Knife robotic radiosurgery to tier II and tier III cities, like Vadorda and Gulbarga. Companies such as the Asian Institute of Gastroenterology (AIG) have been able to substantially reduce the cost of gastric surgery to levels that make good healthcare accessible to millions. This has been achieved without compromising the quality of care. Healthcare outcomes are on par with, and in many instances superior to, some of the most prestigious medical institutions in the US.

How are some hospitals able to provide such high-quality health care at ultra-low prices? Our Investments and work with new care models have identified several common characteristics that can drive improved quality, access to care, and efficiency:

- Focused process management. This includes the standardisation of clinical and operational processes, extensive use of new technologies and analytics (for example: patient self-management or remote monitoring), and robust performance management
- Investment in people. Many healthcare systems are adopting more innovative workforce models—ensuring that highly qualified clinicians work “to the top of their license,” while less-skilled tasks are taken on by new types of staff, such as health coaches. At the same time, successful organisations are continuing to provide strong leadership and implement effective people-development processes
- Emphasis on patients. This includes empowering patients to take a more active role in managing their own conditions, while enabling greater

differentiation of services based on needs and desired outcomes

- Efficient asset utilisation. By focusing on an asset-light model, the emphasis is on ensuring high patient throughput in the most critical areas of a hospital (operating theatres, pathology, radiology)
- Building scale. Increasing operating scale helps healthcare providers in several ways: it supports the expansion of services, leads to improved asset and staff utilisation, and enables increased investment in IT, performance management and new ways of working

These characteristics can help healthcare systems meet the needs of their populations more effectively, and deliver significant improvement in the quality and affordability of care. The promising future for healthcare systems is that there are a multitude of models that have been proven to make a difference; the challenge now is to implement these strategies with capital and talent.

### Profit with Sustainable Social Impact

In our view, Asia represents the new centre of gravity for the global healthcare industry. With powerful secular trends driving the growth of the industry – an increasing and ageing population, the prevalence of chronic diseases - the sector is set for robust growth at over 15% per annum over the coming decade. By harnessing these market forces, there is a compelling opportunity for the private sector to create superior investment returns whilst becoming a critical platform for the long-term, sustainable provision of healthcare. Connecting private capital to a market orientation can bring efficiency to healthcare provision while delivering high quality, affordable healthcare to those that need it the most.

This is not a trade-off between profits and purpose, it is a synergy. A good parallel is the transformation of the aviation industry with the advent of low-cost carriers. Such carriers have not only given access to flight for millions but have equally and, perhaps counter-intuitively, created business models that are now more profitable than their peers. A more important fact that is often overlooked, is that private investors in healthcare have not relied on profits at these hospitals to generate returns. We do not extract dividends from the businesses we invest in. All profits are, in fact, re-invested for further growth. Superior shareholder returns are driven by the value creation of larger, scaled platforms that can command high valuations in public equity and private capital markets.

We firmly believe that our goals of both “doing good” and “doing well” are not just compatible but in fact mutually reinforcing. ■