



cutting through complexity

Growing cost of healthcare and cost optimisation

Association of Healthcare
Fundors of Zimbabwe

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Market overview

The growing cost of healthcare



Across the globe, healthcare costs are rising faster than countries' ability to meet them. The answer to addressing this challenge will, however, not come from doing more of the same.



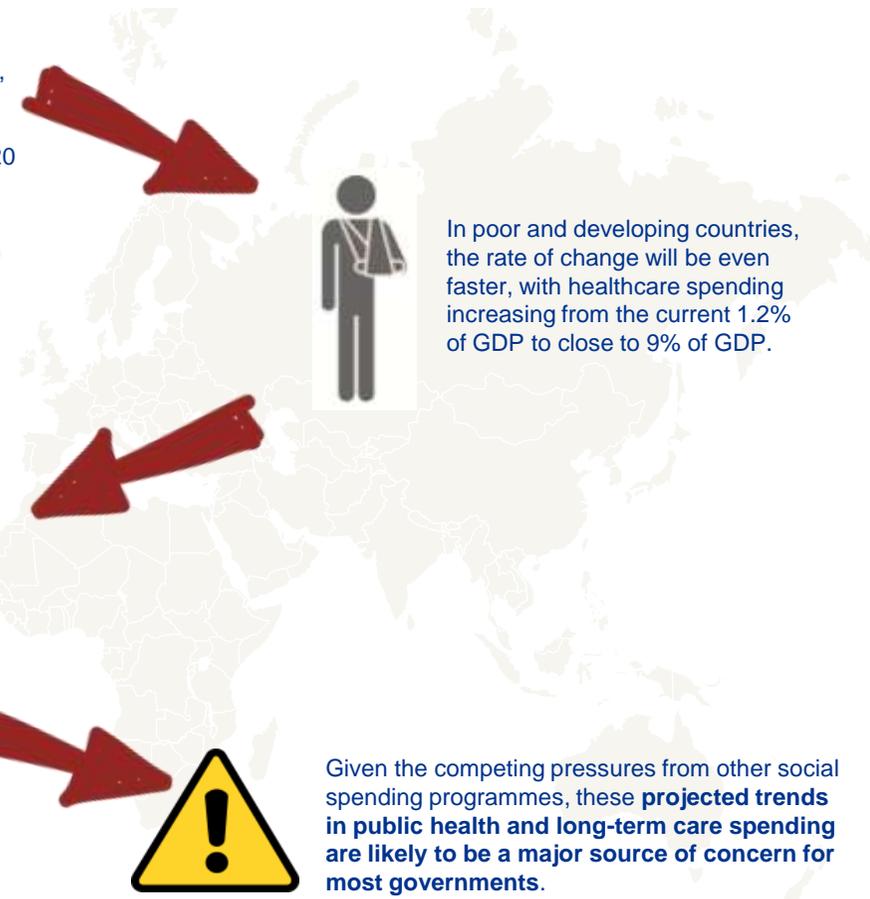
Currently, average healthcare costs as a share of GDP globally, is in the region of 5.5%. The OECD expects this to rise to over 12% of GDP over the next 20 – 30 years of costs are not contained.



The drivers of healthcare costs include a combination of the following factors: increased costs of technology, the impact of institutions and policies, weaker productivity gains, improving health conditions of the elderly, growing populations, increased costs associated with lifestyle diseases and the response of health spending to rising income.



In spite of these trends, traditional methods of cost management still dominates. A proper understanding of healthcare cost drivers and new approaches to optimizing these costs, are required.



In poor and developing countries, the rate of change will be even faster, with healthcare spending increasing from the current 1.2% of GDP to close to 9% of GDP.

Given the competing pressures from other social spending programmes, these **projected trends in public health and long-term care spending are likely to be a major source of concern for most governments.**



Healthcare systems are complex because they reflect the complexity of the human condition. They typically involve a wide range of funding mechanisms, prioritization and rationing mechanisms, role-players, stakeholder interests and government intervention and regulations.

Healthcare markets around the world are well known to suffer from market failures on both the demand and supply side that could potentially harm access to coverage and drive up costs beyond what a properly functioning market would permit. These include:

Healthcare as an emotional good

The patient or consumer is in a unique position, as the good that he or she is purchasing, is often a necessary (or even life or death purchase) of which he or she has very little knowledge

Unlimited demand and limited supply

Almost all markets are faced with an unlimited demand versus limited supply, either in terms of access to healthcare, funding of healthcare, the availability of healthcare professionals or a combination of all

Information asymmetries

Often patients or consumers do not understand the product that they are buying, they do not know what to buy and they do not know if they received value-for-money
Insurers, on the other hand, often do not know the health status of the applicant they are insuring

Moral hazard concerns

Insurance applicants have the incentive to apply for insurance only when sick and leave after treatment
Individuals with no or limited point-of-service costs have an incentive to consume healthcare goods and services without limit
Doctors benefit financially from their own advice

High search costs

Patients cannot shop around for services and compare prices and service quality, i.e. the search costs are too high

Market overview

Zimbabwean economy



- The decline in living standards and an estimated unemployment rate of 80% has weakened domestic demand which greatly impact economic growth
- Despite the prolonged economic turmoil, the country has not descended into civil war
- Zimbabwe does not have a sovereign credit rating - It is not rated by any of the ratings agencies
- The majority of the population in Zimbabwe are between the ages of 15 and 64, having represented 55% of the total population in 2011
- 38% of the population live in urban areas and the remaining 62% in rural areas

Macroeconomic overview of Zimbabwe

	2014f	2015f	2016f	2017f	2018f
Real GDP	3.5%	3.3%	3.6%	3.1%	3.1%
GDP per capita (US\$)	729	761	799	836	876
Private final consumption, real growth	3.0%	3.0%	3.0%	2.5%	2.5%
CPI	2.2%	4.0%	4.0%	4.0%	4.0%
Fixed capital formation, real growth	1.0%	1.0%	2.0%	2.0%	2.0%

Source: BMI Business Forecast Report Zimbabwe Q2 2014

Risk ratings for Zimbabwe

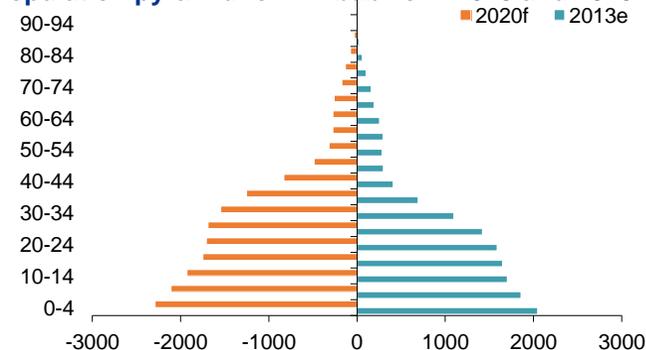
Risk rating	Short term	Long term
Economic risk rating	30 out of 32	26 out of 32
Political risk rating	28 out of 32	27 out of 32
Business environment risk rating	16 out of 32	

Source: BMI Business Forecast Report Zimbabwe Q2 2014



Zimbabwe's Gini coefficient of 50.1 implies that they are the 24th most unequal country in terms of income distribution

Population pyramid for Zimbabwe in 2013 and 2020f



Market overview

Zimbabwean economy



This slide looks at the competitiveness of the Zimbabwean economy



Overall ranking
of **131st** out of
148 in 2013/14

2012/13 ranking
132nd out of 144
countries

- The 3 most problematic factors to doing business in Zimbabwe are:
 - Access to financing;
 - Policy instability; and
 - Inadequate supply of infrastructure
- Ease of Doing Business rank: 170th out of 189 countries
- Trading across borders ranking: 167th out of 189
 - The average time to export is 53 days and the average time to import is 71 days; and
 - The cost to export is US\$3 765 per container and the cost to import is

US\$5 660 per
container

Market overview

Zimbabwean life sciences market



The Zimbabwean life sciences market is affected by a lack of medical professionals.

According to the WHO, staff shortages are as follows:

- Doctors – 56%;
- Nurses – 32%; and
- Pharmacists – 92%



The market suffers from an acute shortage of critical medicines and medical supplies



Life expectancy in Zimbabwe decreased from 62 years in 1990 to 44 years in 2008



The dollarization of the currency in 2009 greatly impacted the cost of healthcare and the ability of the poor to access healthcare services



The Zimbabwean healthcare and pharmaceuticals markets are currently some of the least attractive markets both globally and locally. This is due to the ever present political, social and economic risks, as well as the lack of the provision of adequate healthcare and funding



In most instances the fees for healthcare services are not standardized and many of the facilities set their own fees for laboratory tests, consultations and prescription drugs



Government hospitals and clinics have to deal with electricity outages, inadequate supply of clean water and a shortage of medicine



The lack of medical treatment has led to an increase in the use of traditional and herbal medicines for a large majority of the population

Market dynamics

Healthcare funding in Zimbabwe

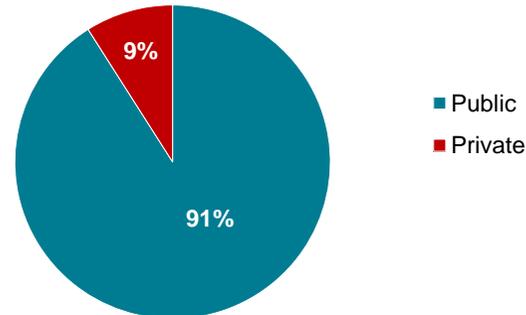


- **Public and private healthcare in Zimbabwe constitutes 91% and 9% respectively**
- **Private healthcare insurance has grown from below 1% to 9% during the last 5 years**
- **98% of public pharmaceuticals are from international donors**
- **In 2009, spending on health was calculated at only US\$ 15 million vs the required US\$ 150 million**
- **Healthcare expenditure is less than 1% of GDP**
- **Health services have a store of only 50% of critical medicines**
- **Only 57% of the healthcare sector in Zimbabwe is staffed**

This slide provides an overview of healthcare funding in Zimbabwe.

Healthcare funding in Zimbabwe

The per capita expenditure on healthcare in Zimbabwe is only US\$ 5 where it should be around US\$ 35. By 2009 the required spending on health was US\$ 150 million and while actual spending only amounted to US\$15 million



Private healthcare

In 2013, private healthcare funding in Zimbabwe represented 9% of total healthcare funding. This figure has fluctuated substantially over the last 13 years, ranging between 20% in 2001 and below 1% in 2008. Private healthcare is expected to expand in the near future, but no significant increase in the number of medical schemes is anticipated over the same period.

Private hospitals and clinics make up only 6.5% of the market, while mission hospitals and clinics make up 6% of the total market. The main source of revenue for these private clinics, especially non-mission facilities, are the user fees.

Private healthcare insurance companies are seen as the most attractive investment opportunity in Zimbabwe, as a result of the recent growth spurt in private healthcare, together with the projected increase in coverage in the future. In 2009, around 30 new health insurance companies started up operations in Zimbabwe for the purpose of generating profits.

Public healthcare

Funding for public healthcare in Zimbabwe represents 91% of total funding, while 87% of all healthcare facilities are public hospitals and clinics

Pharmaceutical products and medicines within public healthcare are mainly funded by donors. The donors either directly procure and supply these products for specific vertical programs, or they provide the health commodities for primary care kits and other commodities to the largest public pharmaceutical company, NatPharm. The EU and UNICEF are the country's two largest donors.

The majority (98%) of the publically available drugs are also from international donors, as the Zimbabwean government does not have the funds for procurement. This undermines the local pharmaceutical market, as the international donors procure the majority of their products from cheap Indian drug makers in order to maximize the influence of their donations.

According to civil society groups working in Southern Africa, the majority of the Zimbabwean public health facilities only have 50% of critical medicines in stock..

Healthcare expenditure in Zimbabwe is below 1% of GDP while within the rest of Africa, expenditure represents on average about 5% of GDP. According to the objectives of the Abuja Declaration, signed by the government, Zimbabwe should aim to allocate at least 15% of GDP to healthcare.

Market dynamics

Burden of Disease in Zimbabwe



Top 10 diseases that cause morbidity in Zimbabwe

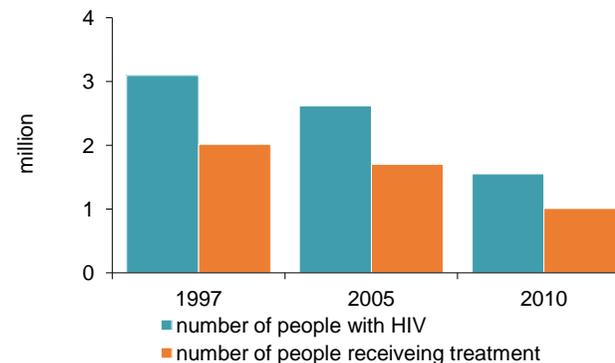
1. HIV/AIDS related
2. Pulmonary TB
3. Sexually Transmitted Disease
4. Nutritional deficiencies
5. Diarrhoeal disease
6. Maternal illness and conditions
7. Child health illness (ARI)
8. Malaria and other epidemic prone diseases
9. Non communicable diseases
10. Mental disorders

Top 9 diseases that cause mortality in Zimbabwe

1. Acute Respiratory Infections (ARI)
2. Other viral diseases
3. Pulmonary TB
4. Intestinal infections
5. HIV/AIDS related
6. Injuries
7. Meningococcal and other meningitis
8. Malaria
9. Nutritional deficiencies

HIV/AIDS

- **HIV/AIDS prevalence:**
 - 25.3% in 1997;
 - 20.5% in 2005; and
 - 13.3% in 2010
- **Actual number of people with HIV/AIDS:**
 - 3.1 million people in 1997;
 - 2.6 million people in 2005; and
 - 1.55 million people in 2010
- **Number of people that received treatment**
 - 2 million people received treatment in 1997;
 - 1.7 million people received treatment in 2005; and
 - 1 million people received treatment in 2010





Malaria

• **Prevalence of malaria**

- 4 million people are at risk of contracting malaria every year;
- The population group most vulnerable to the disease are children under the age of 5, the elderly, people living with HIV/AIDS and pregnant women;
- 50% of the population that live in rural areas are affected by malaria;
- 73% (or 45 out of the 62 districts) of all districts in Zimbabwe are affected by malaria; and
- There have been 1.5 to 1.8 million reported cases of malaria in Zimbabwe each year since 1996

• **Actual number of people with malaria**

- In 2007, 1.5 million cases of malaria were reported which represents 126 per 1000 of the population

Tuberculosis

• **Prevalence:**

- TB is one of the leading causes of death amongst adults;
- The single greatest contributing factor to the TB epidemic is the HIV/AIDS epidemic, and the WHO estimates that 69% of all new adult TB patients are infected with HIV/AIDS; and
- Zimbabwe is ranked 17th on the list of 22 countries with the highest TB burden across the world

• **Actual number of people infected with TB in Zimbabwe:**

- In 2007, 96 273 people were infected with TB or 782 per 100 000 people; and
- In 2009, 61 406 people were infected with TB or 539 per 100 000 people

• **Number of people that received treatment**

- With regards to the effects of TB, Zimbabwe has the second highest mortality rate in the world;
- The country only has a 60% success rate with regards to the treatment of malaria; and
- Even though the national treatment rate is improving, it is below the 85% required by the World Health Organization

Healthcare in Southern Africa – where are we now?

Public Sector

- Publically funded through taxes
- Constrained financial resources
- Primarily a free public service
- Foundation of country healthcare, dealing with the majority of population
- Inability to attract and retain medical staff
- Older and outdated medical equipment
- Poor working conditions

Private Sector

- Privately funded through fees and shareholders
- Expensive to access
- Currently services small portion of the population
- Usually equipped with latest equipment
- Large number of specialists and other medical staff

Healthcare System

- Increased pressure on system through AIDS, TB other diseases
- Critical lack of trained healthcare personnel – exodus to non-African countries
- Weak exchange rates increasing cost of medical devices and drugs

Market pressures and cost drivers in private healthcare

Private Healthcare and Medical Aid Schemes cost drivers

Wage inflation

Need to offer above inflation increases to ensure staff retention

Insurance

Increased insurance changes for medical malpractice have seen large increases in premiums

Equipment replacement

Constant changes in medical technology coupled with poor exchange rates have lead to increased costs for professionals to ensure equipment is current

Procurement

Poor controls and polices around the procurement of daily medical supplies can lead to increased costs above budgeted forecasts

General Overheads

Above inflation increase in administered prices (water, rates, electricity, rental etc.)

Administrative costs

Increased administrative burden through legislative changes have meant hospitals and medical aid schemes need to invest more time in information capturing and reporting

Specialist fees

Additional increases faced by hospitals and medical aids due to the above pressures being placed on specialists

How can this be addressed?

How can this be addressed?

You need to look at your business as an External Investor

This allows for an unconstrained upside view of possible areas of improvement without any internal political agendas

The Programme is based on a rapid team deployment that ensures that you get results in fast, data rich manner which allows for informed business decisions to be made

Your ideas must be both:

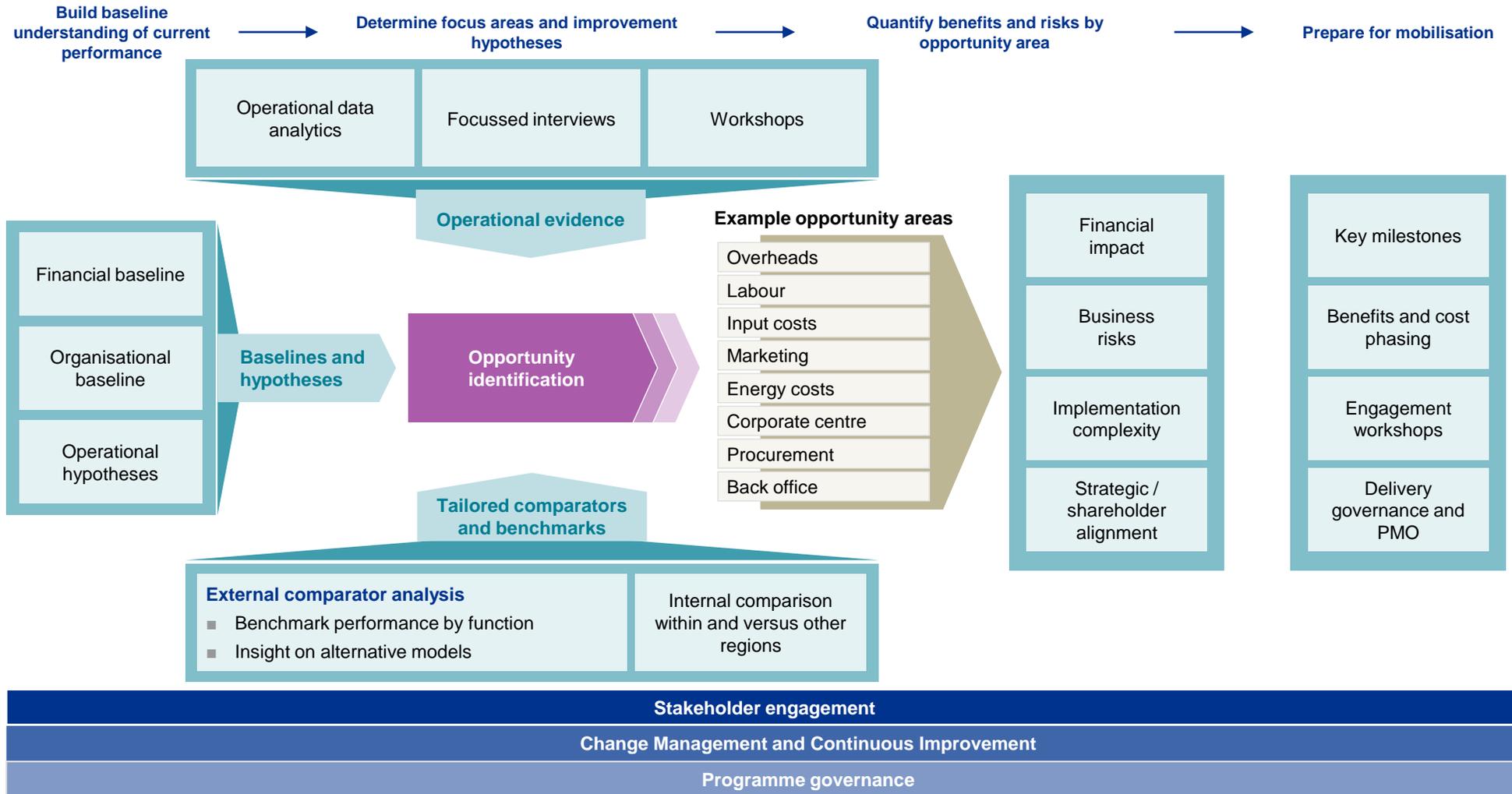
- Grounded in reality and backed up by hard facts
- Sustainably implementable to ensure change is effective

Typical phases of a cost reduction programme



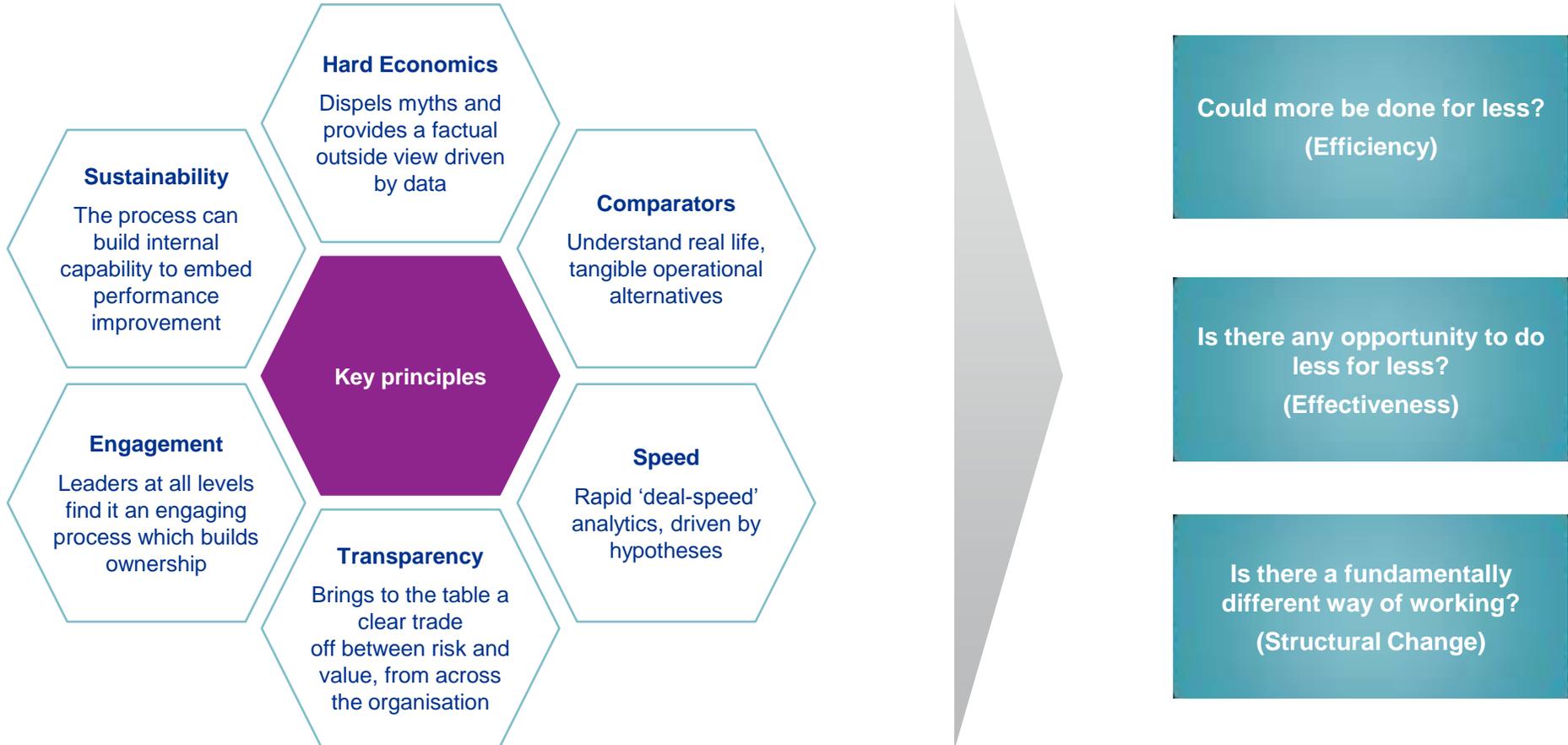
Applying the External Investor methodology to accelerate the development of opportunities

The methodology utilises a hypotheses based approach supported by both comparator analysis and operational evidence to rapidly identify and develop opportunities to improve margin performance.



What we provide to a client

Our approach is underpinned by a number of key principles and our experience suggests that within businesses that have a mature approach to cost management the largest contributors of margin performance are related to “less for less” and “structural change” opportunities



This approach responds to the real challenges

We believe that our approach effectively responds to the challenges clients face:

Getting real insight but at 'arm's length'

- We deploy an approach that has been designed to rapidly identify areas of opportunity whilst minimising the impact to the business
- We adopt a fact based 'data driven' approach that our clients tell us helps to dispel myths and to engage the leadership teams. We will work with your teams to align focus on the areas that are most critical and support you to identify tangible next steps

Understanding how comparator organisations have addressed similar challenges

- We have access to a combination of KPMG's deep functional expertise across a range of critical areas as well as an extensive global network, which enables us to gain insight into comparable organisations
- We leverage internal and external comparator information to identify alternative ways of working, allowing us to challenge existing performance. Our approach goes beyond traditional benchmarking and details specific insights relevant to the business

Ensuring opportunities are sustainable

- We ensure that the opportunities identified are realistically achievable through focussing on the underlying driver and believe that to successfully and sustainably deliver benefit it is an absolute requirement that these drivers are removed/reduced
- Throughout our approach we deploy a range of tools and techniques to ensure you have the capability and maturity to ensure costs do not creep back over time or that margin is eroded – a common issue faced by many organisations

Identifying the full range of potential opportunities

- We focus in the early stages on providing you with an extensive range of hypotheses to improve the performance of your business
- Opportunities will comprise both those that deliver incremental benefit and those that represent a more radical step change in performance, however, we recognise that not all these opportunities may be appropriate for your business, so ensure that we have an early intervention with you to allow you to shape the direction and focus of our work

Managing change to deliver the full potential

- We apply a robust change management framework that enables us to effectively manage the change and drive the right behaviours that are key to ensuring sustainable benefits
- The focus of the change management work will be to clearly articulate the case for change and to understand the change impact on your organisation

Value proposition

What makes us different

We believe there are four main areas that differentiate this approach from everybody else

Partnering through to execution

Quantified opportunities count for nothing if the savings identified cannot be sustainably extracted from the business

- We recognise implementation is the hardest part of this journey and have developed structured and pragmatic tools and interventions to drive change
- We engage and commit sponsors that can truly influence and lead the change across all in-scope areas – we train your people so they can lead the change
- We work with HR teams to hard-wire concrete performance metrics into personal targets to drive ownership and accountability
- We draw on a global team of subject matter experts to fill capability gaps or partner our clients through the nuts and bolts of implementation
- We don't relent in creating absolute transparency on execution promises

Adopting the mindset of an external investor

We will approach the diagnostic review using our Private Equity Lens methodology, as used within a transaction and restructuring environment

- Our true independence removes any inclination to preserve existing relationships in the business – we'll seek out value relentlessly
- We'll understand and quantify the full range of unconstrained opportunity and risk across your priority areas – typically we find 15-30% from the cost base
- We rely on data and hard economic analysis to provide the evidence – not extensive and intrusive workshops and interviews
- We avoid superfluous analysis to reach recommendations based on our experience by taking an 80/20 approach . We work at pace to drive towards full upside potential
- Ultimately providing you with realistic 'deal quality' initiatives as a basis to challenge management and build implementation plans

Leveraging a breadth and depth of expertise

Our past experience means we know how to drive operational improvement in the varying industries



... and the team members who will work with you will apply this experience in developing solutions to your big operational challenges

Bringing the best team

We have tried and tested team of industry and optimisation experts

- We have committed team from across our global practice, combining deep healthcare expertise with seasoned cost optimisation professionals. Between them, this team has delivered over 150 operational reviews across various industries, so we understand where to look and what gets implemented
- Our global teams know each other well and operate as an effective team that can hit the ground running from day one to go after your high value opportunities
- They have established access to information and industry networks both inside and outside KPMG that allow them to robustly challenge the 'art of the possible'
- We have access to local and global tax expertise to exploit any associated tax savings

Questions?

Key Contacts



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