Media title: In finer fettle
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BUSINESS REPORT

In finer fettle

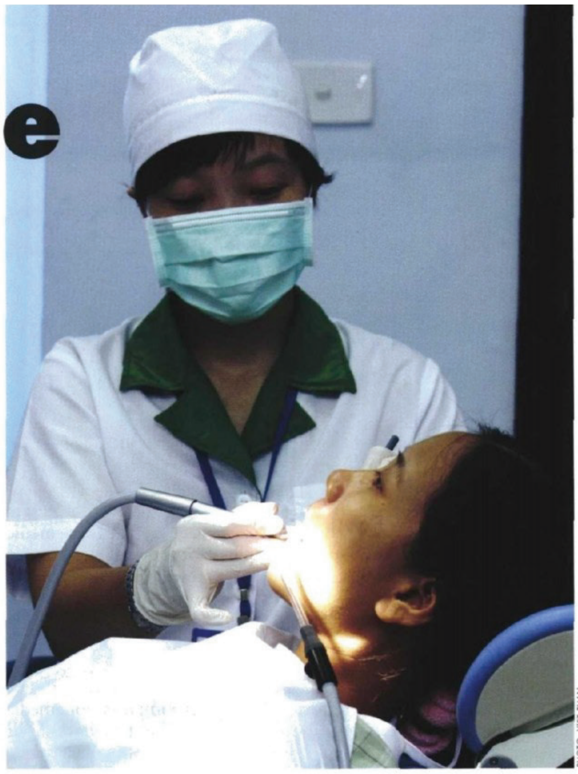

PHOTO: VIET TUAN

While catering well to basic needs, Vietnam's healthcare sector must move to the next level and provide top quality care at all facilities.

■ *Mr.* STEPHEN GASKILL – *Deputy General Director* & *Mr.* NGUYEN LUONG HIEN, *Associate Director of Deals - Strategy Services at PwC Vietnam*

Last year healthcare spending in Vietnam reached $12 billion, up 13 per cent against the previous year and representing about 6.5 per cent of the country's GDP. Healthcare expenditure was close to $130 per capita; more than twice the level of 2007 but still relatively low when compared to other Southeast Asian countries, such as Malaysia with $410, Indonesia with $322, and Thailand with $215 in 2013. Not surprisingly, the industry has been among the fastest growing sectors in Vietnam and possesses significant potential.

GOOD BASIC CARE

Vietnam is still a poor country, ranking 135th in the world in 2013 (according to World Bank data) based on GDP per capita. Still, when compared to its Southeast Asian counterparts its overall quality of care, in particular basic primary care, appears surprisingly good.

The country thus outperforms most of its Southeast Asian counterparts on indicators like life expectancy or adult mortality and its infant mortality rate is also quite low. Vietnam's overall performance in these indicators is comparable to Thailand and superior to Indonesia, despite these countries having, respectively, disposable income per capita almost three and two times higher.

Such statistics are partially explained by a historically dense hospital network, with over 1,100 public hospitals (75 per cent of which were built before 1995) and about 130 private hospitals, representing over 200,000 beds in total with a ratio of 22 beds per 10,000 inhabitants. As a point of comparison we can look at Singapore, which ranks first in Bloomberg's 2014 international rankings of healthcare systems and has 27 beds per 10,000 inhabitants.

At first glance these figures for the healthcare industry seem to indicate that Vietnam is performing quite well in this area, especially considering that the country remains poor in comparison with other countries in the region. However, the figures, to some extent, hide the fact that Vietnam's healthcare system is facing its fair share of tremendous challenges, such as overcrowded hospitals and poor quality of care.

CHALLENGES GOING FORWARD

While the hospital network, comprised of both branch, provincial-level and national-level facilities, provides the country with a high number of beds per inhabitant it still has not resolved the issue of high bed occupancy rates and Vietnam continues to far exceed the 80 per cent threshold recommended by the World Health Organization (WHO).

While almost all Vietnamese public hospitals suffer from overcrowding or very high occupancy rates, the issue is more extreme at national-level hospitals in large cities. The quality of medical equipment and medical staff at provincial-level hospitals is still lower than at national-level hospitals, at least in the minds of the majority of Vietnamese patients.

As a consequence, Vietnamese patients are ready to travel quite long distances (over 50 km in some cases) to face overcrowded national-level hospitals rather than going to their local district or provincial hospital. Several reputable national-level hospitals have displayed extremely high occupancy-levels. K Hospital recorded a 250 per cent occupancy rate in 2009. More recently, Cho Ray Hospital reached 139 per cent, the Vietnam National Cancer Hospital 172 per cent, and Bach Mai Hospital 168 per cent. Data published in early 2015, while showing a slight improvement, showed that rates remain far above 100 per cent for the majority of large national hospitals. Small provincial hospitals therefore need to upgrade their healthcare services to help reduce the flow of patients into large public hospitals.

Beyond inequality of care, the overall quality of services provided is the major reason for the high occupancy rate. The average length of stay is significantly longer on average in Vietnam than in other Southeast countries.

It takes much more time to treat patients in Vietnam than elsewhere in the region. Outdated medical equipment combined with limited access to the latest drugs at Vietnamese public hospitals (and, specifically, in small provincial-level hospitals) are commonly cited as the major challenges to improving the quality of care in Vietnam. In our past market reviews in this industry, the physicians we interviewed all pointed to the quality of equipment as being the main challenge for public hospitals. "Operating rooms and equipment are mostly out-of-date. I send 80 per cent of my private patients to another hospital to have breast cancer operations as we cannot deal with it properly here," one oncology surgeon said.

MASTER PLANS

Conscious of the huge challenges the country is currently facing, the Vietnamese Government has set up a comprehensive roadmap to 2020 to improve all major aspects of the country's healthcare system. Several master plans have therefore been issued since 2012, addressing key areas such as public health insurance, hospital services, and access to drugs.

The hospital master plan defines a 2020 action plan to, among others, address the high bed occupancy rates. The top priority is to optimize the healthcare network and to unburden the large national-level hospitals with strong support given to the creation of new private hospitals and the improvement of existing hospitals.

Parallel to this master plan, the Ministry of Health has also published the national health insurance plan. The latter has set up a national target of reaching 80 per cent of the coverage population by 2020 (versus less than 60 per cent coverage today). Such an ambitious objective creates further pressure to upgrade and modernize the healthcare system and in particular its mainstay: public hospitals.

NEW OPPORTUNITIES

Vietnam's desire to modernize its healthcare system should generate plenty of business opportunities in the upcoming years. The first area Vietnam will need to improve is the hospital network. Modernizing hospitals will require heavy investment and funding that Vietnam will not be able to fulfill through traditional sources alone. The master plan clearly indicates that the government is encouraging the creation of new privately-funded hospitals and clinics. This new private healthcare infra-

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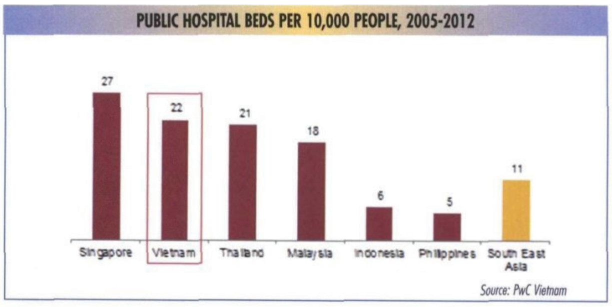

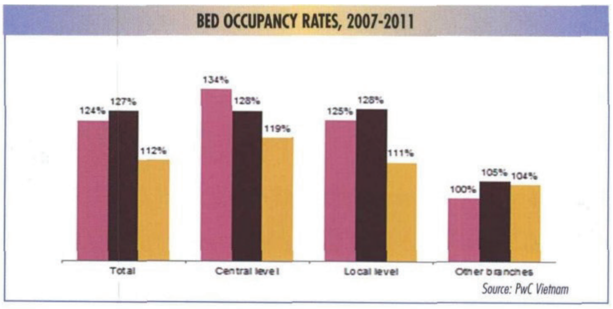

structure may position itself to service the high-end segment of the healthcare market, tapping into the significant spending by local patients going abroad for operations and other treatment that could be handled domestically. It is currently estimated that every year $1 billion is spent by over 40,000 Vietnamese patients travelling abroad for healthcare services.

In addition to new hospitals, opportunities also exist in relation to healthcare products and, more specifically, medical equipment and drugs. In order to improve Vietnam's healthcare system the government must modernize its outdated equipment and grant broader access to drugs. The US Commercial Service estimated, in a public report published in June 2014, that the medical equipment market would be among the fast growing in Vietnam for US-based manufacturers given the urgent need to replace old medical devices in hospitals. Market research specialists like BMI also predict double-digit growth in the next few years for both the medical equipment and drug markets.

Yet growth in these segments is subject to the evolution of regulations relating to importing and, for the pharmaceuticals segment, of regulations regarding domestic production. Vietnam still relies heavily on imports for medical products. The hospital bidding process remains too complex and time consuming. Modernization will require better access to up-to-date equipment and drugs and will need to go hand-in-hand with a simplification of the current regulatory environment and bidding processes (or at least make it more transparent for foreign players). This could lead to promising business opportunities, of course for exporters, but potentially also in the medium to long term for foreign companies setting up domestic manufacturing operations. That is the objective of the pharmaceuticals master plan, which set an ambitious objective of substantially developing domestic production by 2020.

Another area of opportunity may be in relation to the private health insurance sector. The industry remains nascent in a market where private spending still accounts for over 50 per cent of total healthcare expenditure. Private health insurance was only officially recognized as a specific insurance product (separate from non-life and life products) in 2011 by the Ministry of Finance. This segment has recorded the highest growth rate over the past few years within the insurance sector. Going forward, the underlying trend looks promising. While the target by 2020 is to decrease private spending-levels, under the new health insurance master plan it would still account for 40 per cent of total healthcare spending (versus over 50 per cent today) in 2020. In the meantime, gross premiums written in relation to private health insurance in 2013 were extremely low, barely reaching $200 million, according to the Association of Vietnamese Insurers. At such levels, insurance companies surely have a huge and still-untapped new market to access. ■