The Vietnamese healthcare industry: moving to next level

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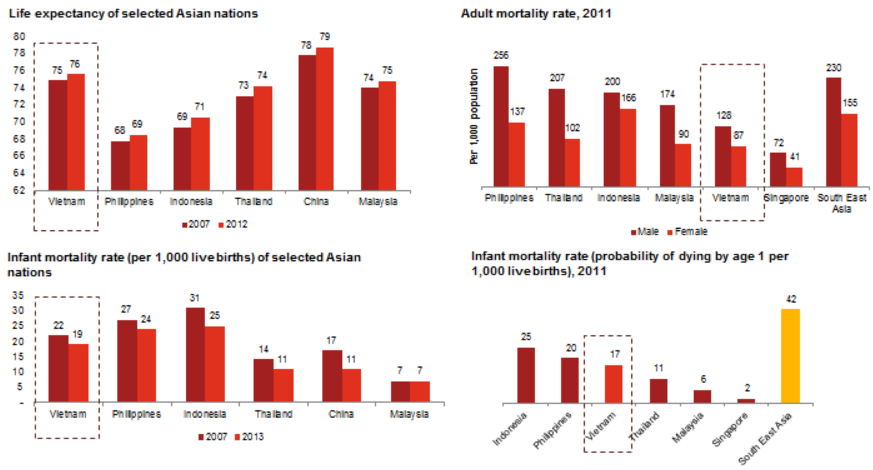
Last year, Vietnamese healthcare spending reached USD12 billion, up 13% vs. previous year and reaching c.6.5% of Vietnam GDP. Health expenditure was close to USD130 per capita, more than twice the level of 2007, but still relatively low when compared to other South-East Asia countries (e.g. Malaysia: USD410 per capita, Indonesia: USD322 per capita, Thailand: USD215 per capita in 2013). Not surprisingly, the industry has been among the fastest growing and most high potential sectors in Vietnam.

Good performance on 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 South East Asian counterparts, its overall quality of care, in particular for basic primary care, appears surprisingly good.

The country thus outperforms most of its South-East Asian counterparts on indicators like life expectancy or adult mortality and its infant mortality rate is also quite low. Vietnam's overall performance on these indicators is comparable to Thailand and superior to Indonesia, despite these countries having respectively almost 3 and 2 times higher levels of disposable income per capita.



Source: World Bank, World Health Organization's Health Statistics Yearbook 2013

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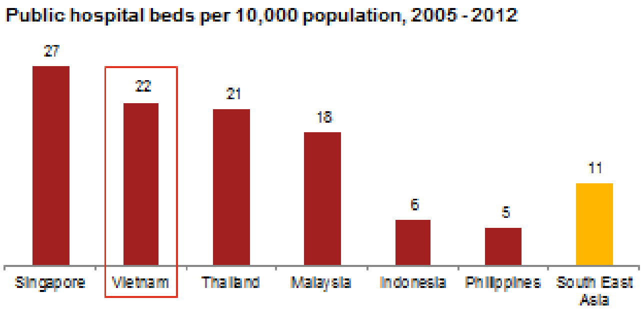
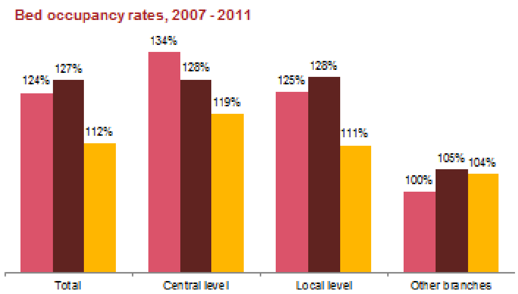
Such statistics are partially explained by a historically dense hospital network with over 1,100 public hospitals (75% of which were built before 1995) and c.130 private hospitals, representing over 200,000 beds in total with a ratio of 22 beds per 10,000 inhabitants. As a point of comparison, we can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



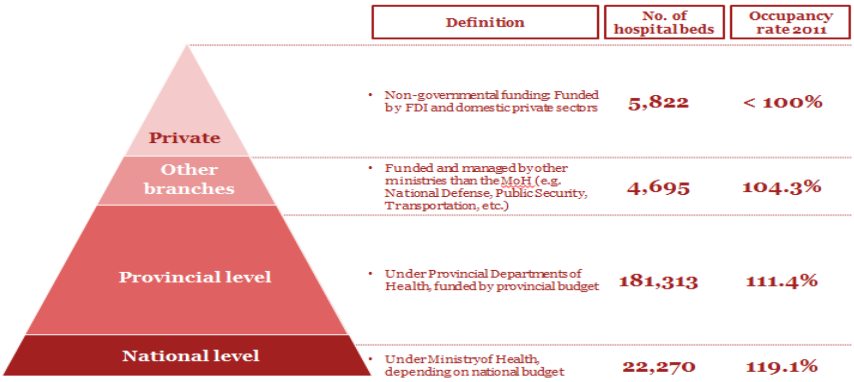
At first glance, the healthcare industry statistics seem to indicate that Vietnam is performing quite well in this area, especially considering that the country remains poor in comparison with other countries in the region. However, the statistics to an extent hide the fact that Vietnam's healthcare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

Major challenges going forward

While the network of hospitals, composed of both branch, provincial level and national level facilities, provides the country with a high number of beds per inhabitant, it still has not solved the issues of high bed occupancy rate and Vietnam continues to far exceed the 80% threshold occupancy rate recommended by the WHO.



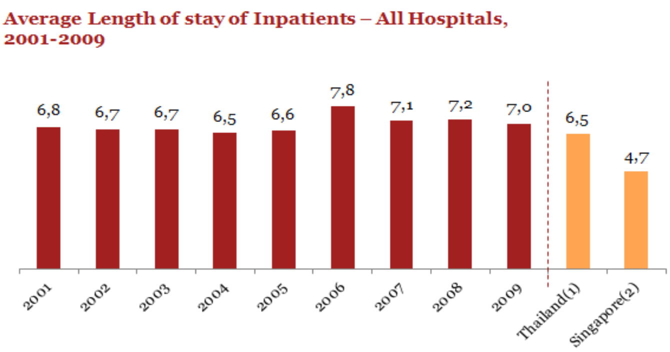
While almost all Vietnamese public hospitals suffer from overcrowding or very high occupancy rates, the issue is more extreme in national level hospitals in large cities. The quality of medical equipment or medical staff in the provincial level hospitals is still lower than in national level hospitals,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



Source: Vietnam General Statistic Office, Health Statistic Yearbook 2012 – MOH

As a consequence, Vietnamese patients are ready to travel quite long distances (over 50km in some cases) to face the 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 records a 250% occupancy rate in 2009; more recently, Cho Ray Hospital reached 139%, the Vietnam National Cancer Hospital 172% and Bach Mai Hospital 168%. Early data published in 2015, while showing a slight improvement, showed that rates remain far above 100% for the majority of large national hospitals. The small provincial hospitals therefore need to upgrade their healthcare services to help reduce the flow of patients into large public hospitals.

Beyond the 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 South-East countries.



The above graph shows that basically it takes much more time to treat patients in Vietnam than elsewhere in the region. The outdated medical equipment, combined with the limited access to the latest drugs in Vietnamese public hospitals (and, specifically in the small provincial level hospitals) are commonly cited as the major challenges to improving the quality of care in Vietnam. From our past market reviews in this industry, the physicians we interviewed all pointed out that the quality of the equipment as being the main challenge for public hospitals. “Operating rooms and equipment are mostly out-of -date. I send 80% of my private patients to another hospital to have the breast cancer operation as we cannot deal with it properly in here”, according to an oncology surgeon interviewed.

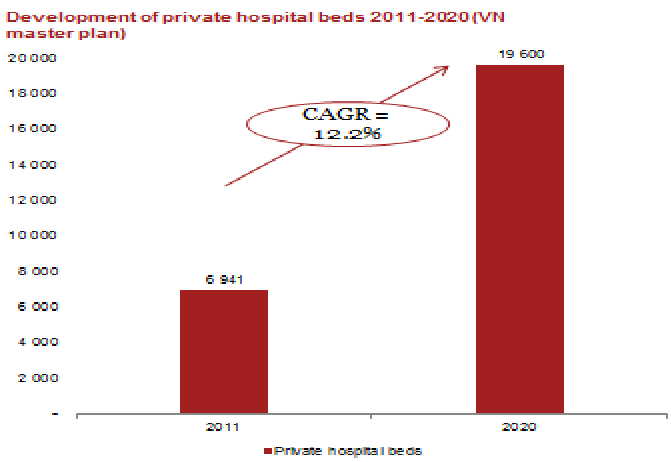
Master plans to impulse modernization of Vietnamese healthcare

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 healthcare system. Several master plans have thus been issued since 2012 addressing key areas such as public health insurance, hospital services or 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 for the creation of new private hospitals and improvement of existing ones.

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% of the coverage population by 2020 (vs. less than 60% coverage today). Such an ambitious objective creates further pressure to upgrade and modernize the healthcare system and in particular its mainstay, the public hospitals.

New opportunities in healthcare



Vietnam’s desire to modernize the healthcare system should generate plenty of business opportunities in the upcoming years. The first area Vietnam will need to improve is the network of hospitals. 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 infrastructure 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 US$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 the Vietnamese healthcare system, the Vietnamese government must modernize its outdated equipment and grant broader access to drugs. The U.S. Commercial service has estimated in a public report published in June 2014 that the medical equipment market would be amongst the fast growing in Vietnam for U.S 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 related to importing –and, for the pharmaceuticals segment, of the regulation regarding domestic production. Vietnam still relies heavily on imports for medical products. The hospital bidding process remains too complex and time consuming. The modernization of the Vietnamese healthcare system 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.

Top 10 biggest pharmaceutical companies 2014	Office in Vietnam	Factory in Vietnam
Pfizer, USA	✓	✗
Novartis, Switzerland	✓	✗
Sanofi, France	✓	✓
Roche Holding, Switzerland	✓	✗
Merck & Co., USA	✓	✗
GlaxoSmithKline, UK	✓	✗
AstraZeneca, UK	✓	✗
Eli Lilly & Co., USA	✓	✗
Abbott Laboratories, USA	✓	✗
McKesson, USA	✗	✗

Another area of opportunities may be in relation to the private health insurance sector. The industry remains very nascent in a market where private spending still account for over 50% of the 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 showed the highest growth rate over the past few years within the insurance sector. Going forward, the underlying trend looks promising. Whilst the target by 2020 is to decrease private spending levels, under the new health insurance master plan, it would still account for 40% of total healthcare spending (vs. over 50% today) in 2020. In the meantime, gross premiums written in relation to private health insurance in 2013 were extremely low, barely reaching US$200 million according to the Association of Vietnamese Insurers. At such levels, insurance companies surely have a huge and still untapped new market to address.

Overall, the continuous increase in healthcare spending, combined with the necessary modernization of the Vietnamese healthcare system and ambitious national development plans should continue to drive strong growth in the healthcare market over the coming years. Vietnam's healthcare system is at a crossroads. The country has managed to address its population's most basic needs but now faces the tremendous challenge of taking the country's healthcare system to the next level of development.

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