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“The Road Ahead: What Next for Emerging Market Private Health Care”

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“BEYOND TOMORROW: PRIVATE HEALTHCARE IN EMERGING MARKETS”

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Good evening everyone, it is a pleasure to be here. Thank you for the kind introduction and thank you to the IFC for the opportunity to address the conference.

It is great to see so many friends and colleagues. Many of you I know as readers of the Monitor, and some we've worked with in the past. But I look forward to meeting and talking with everyone over the next two days because all of you are at the leading edge of private healthcare and there is much I want to hear from you.

We have about 20 minutes here and I am going to run through a lot of issues at a relatively fast pace.

Let me explain briefly what I primarily focus on. In short, I look at the risk and opportunities to your portfolios, be they investment funds, hospitals, healthcare properties, etc. We explore the risks and opportunities that are not quantified; the politics, policy, and geopolitics of private healthcare and the impact they have on the future, beyond tomorrow.

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Brain research tells us that 75% of men are left-brain thinkers. We men, focus on the short-term. And 75% of women tend to have strong right-brain traits, they exhibit traits as forward-thinkers, they are more aware of the future, the big picture, and have a strong sense of long-term benefits and consequences.

So, for the next 20 minutes I'll ask us men to turn our brains around, to think long term and big picture. We're going to think of the benefits and opportunities beyond tomorrow. And for the women in the audience? Well, you probably have already thought of what I have to say, and I'd support that as one more reason why we need more women on management and executive boards.

Let's get started...

I am going to illustrate some background information and then talk about a few of the risks and opportunities beyond tomorrow.

There are two distinct forces that are inter-related and have the most dramatic impact on all healthcare in emerging markets today, and we believe for the long term:

Number 1 is demographics, and

Number 2 is the growing impact of national politics and geopolitical influence.

Demographic Impact

I know everyone here is familiar with the demographic changes the world is experiencing and the impact on healthcare. But what we're going to explore is the dramatic, explosive population growth and its influence on decision making.

For instance, it is estimated the total population is expected to increase by 50% to 10 billion people by 2050, in less than 40 years.

But the issue for us here tonight is the explosion of the middle class: Ten years ago, China and India had 13% of the world's middle class; 20 years from now they will have 44%., more than triple.

And it is the sheer size and pace of the growth of the middle class in emerging markets and elsewhere that will have a profound impact on healthcare resources.

I am going to use food one example of the early signs of the explosive growth in the world's middle class. But you know from your work of the coming shortage of medical supplies, medicines, clinical workers and more.

The MENA region, that is the Middle East and North Africa region, is now the worlds' largest cereal importer. Food prices in Egypt alone were up 20%+ last month alone.

In 2014 Brazil, India, and China will spend \$2 trillion USD on food, about two times what they spent in 2009. Today, bans on exports of grain and rice are now a couple of years old in some countries and Brazil has closed sales of agricultural land to sovereign funds.

Though food riots are almost commonplace, it was only in early in 2010 did we see villagers riot and burn a hospital in protest to the lack of access to medical care.

And it is that perception of access that will begin to pressure healthcare.

The exponential growth in the world's middle class *already* demands access to technology at an ever faster pace. When the iPod was introduced in 2001, three million units were sold in 3.5 years. Yet, with the more recent introduction of the iPhone, three million units were sold in 80 DAYS.

The demand for raw materials used in imaging and other medical equipment will begin to push against other demand forces, including military and consumer goods. In November of last year, GE Healthcare, a division of multi-national General Electric, announced that it now recognizes China as a viable healthcare market. And just 3 weeks ago the German conglomerate BASF announced it would enter two new sectors for the giant company: food and healthcare.

For healthcare, the pressure from the rapid population growth, particularly the middle class, will push governments to make market changes that incorporate both open market policies and government backed interventions. But these changes will not look at all familiar to the incremental changes taking place today in Russia, Poland, and elsewhere.

Geopolitical Influence on Decision Making

As I mentioned, geopolitics is also playing a major role in healthcare developments worldwide, and we think geopolitics will become more important in the years ahead.

Private healthcare has always faced unique challenges to its stability in times of unrest. Health providers know full well their services can be taken by the state in times of war, medical emergency, natural disasters, and so on. Though we are not convinced many investors or developers are actively planning for these types of risks, seizing property by the state at times of war is not the type of geopolitical risks we have in mind.

What we have in mind when we discuss geopolitical risks is the need for developers and investors to plan for the types of risks that will become more common in the future. For instance:

- Might the purchase of carbon credits be forced on hospitals that have a high percentage of patients who fly into the country for medical care? Would this give a regional advantage to one country, say perhaps Jordan over India?
- What is behind Russia's leaders calling for pharmaceutical technology transfer from the likes of GlaxoSmithKlein?
- Is the "south-south" trade model a money maker for private healthcare?
- How do the demographics of "young" countries benefit the "old age" pension countries like Germany and the US?
- What is the impact when a country delays the roll out of proven technology like Thailand's delay of 3G?
- Will criminal activity in a country known for such events offset any medical mal-practice risk mitigation? Are investors protected from these risks?
- Might the US debt load impact private healthcare in Eastern Europe?

These questions are not an academic exercise because they do represent the very real challenges to investors and developers that work across borders. Healthcare is historically a sector that has been played-out within a particular country's confines; its legal, social, cultural, and geographic boundaries. Yet today, healthcare is expanding across regions and hemispheres at a rapid rate.

We see strong influence of geopolitics on healthcare investments and development today: Malaysia's Khazanah, Fortis Healthcare, and Parkway Health of Singapore played out a deal fraught with geopolitical implications. India's strong pharmaceutical sector is now firmly engaged in Latin America, a region with similar demographic trends. Northern European investors continue to follow their colonial African history with investments in insurance and finance on the continent. And medical device manufacturers are smartly developing centers of R&D and manufacturing targeted to the changing market place.

For investors and developers, the complex human intensive nature of healthcare, combined with geopolitical realities, requires a skill set that is not readily available from other sectors.

I can easily talk for hours on the subject of geopolitics and demographics, but for now we will take a look at some specific risks and opportunities beyond tomorrow.

Health Worker Shortage as National Security Issue

The first risk we also see as an opportunity. And that is the global health workers shortage.

Back in 2008 we produced a briefing on the global health worker shortage, and it was subtitled: An Investment Risk? Or A Security Risk?"

Our thinking at the time, and still today, is that the health worker shortage, even taking into account the Kampala Accord and the WHO Global Code, only the second Global Code issued in the history of the WHO, has the potential to become so great an issue as to threaten national security for some countries.

And when we ask, will the supply of skilled health workers become a national security issue, much like food and other commodities, we do see early indicators.

In September of last year Malaysia's Health Minister urged medical specialists to return home to show their patriotism.

Recently, Cairo for a while banned doctors from taking jobs in Saudi Arabia.

Uganda has hundreds of vacant medical positions.

Ghana claims the UK is crippling their healthcare system.

Doctors were injured during protests in Algeria. They were protesting compulsory service. And a recent study shows medical tourism is negatively impacting Thailand's medical staffing levels.

As I wrote in 2008 briefing:

...we see the potential for the growing medical worker shortage to increase medical costs at a rate greater than in the past, eventually acting as a disrupter in family disposable income." This is the national challenge for some markets.

The last sentence in the briefing reads:

"Assuring the supply chain, the human reserve of knowledge and skills, will become necessary for any strategic investor."

So tonight I ask: How are you planning for the health worker shortage as you begin to cross borders? We know Manipal, Apollo and others have clear and active strategies in place for this challenge, and large opportunity.

Exporting the Risk in Health Insurance

Another opportunity beyond tomorrow is the exportation of health insurance risk.

Yes, the exporting of risk for health insurance. In this future we see the fall of geography as a limiting factor in health insurance. Risk pools will cross borders and begin to focus on cultural and religious similarities. Wealthy, middle aged policy holders, say in Jakarta will share the same risk pools, and lower premiums, with young, upwardly mobile policyholders in Egypt, as one example. The idea here is that the cross subsidization of risk sharing will take place not based on geography or national boundaries but rather the cultural, religious, and demographic similarities of the *policy holders*. And this is why we think takaful policies, Islamic compliant policies, have such a bright future.

Formal 2 Tier Health System

Beyond tomorrow we also see the formalization of the two-tier healthcare system. Now I believe this may instill a bit of controversy, but we will ask: Is health solidarity finished?

When I raise this question I am not suggesting health solidarity and private healthcare are in conflict. That would be a zero-sum analysis. But rather, I am asking, might the ideal of equal access be finished?

Much of the torturous process of healthcare reform in Central and Eastern Europe deals with health solidarity. But my position, my thinking is best utilized by exploring the idea that the pressure of government deficits, inflation, defense demands, and corruption will force governments to put in place a formal two tier system. Essentially, this would require the purchase of private health cover, for some individual, for access to state or private healthcare. And those wealthy individuals will continue to pay into the state funds.

This opportunity will clearly be a revenue grab by the state, and likely welcomed by those wealthy enough to, in effect, buy out of the state system.

I also see two distinct developments that I believe will also drive a two-tier system.

The first is the rise of nationalism, from the Dutch Freedom Party, to the True Finns, the resurgence of LaPen's National Front in France and elsewhere as having the potential to speed-up the establishment of a two tier health system in much of the world. This is a topic we can explore later.

The second is the US government debt and military expenditures. In the past 10 years the US military budget has more than doubled. During this time much of the West has not had to increase their own military budgets, which has allowed free reign with their health budget. We believe the US will eventually cut-back its military budget, even withdrawing from parts of the world where they have had long term bases. With this withdraw, other countries will need to increase their own defense budgets, Poland will increase their defense budget 7% next year, potentially driving down their healthcare spend. This would be a strong and positive sign for private healthcare.

Medical Tourism as an Ice Berg on the Horizon

For many years now medical tourism has been a topic of much interest. And tomorrow's keynote will be given by one of the global experts in the field. I won't spend much time on the subject other than to raise another question: Is medical tourism an iceberg floating in the waters of private health?

In short order, in states where the rich-poor divide is great, populations will eventually react negatively to state moneys being used to support medical tourism, and that includes PPPs.

In 2008 I gave a speech in Taiwan on the subject and noted the likelihood of civil unrest in India due to the growing dependence on medical tourism revenues. Two years later a hospital in Kolkata was vandalized and burned when villagers thought local patients were denied hospital care.

“The gap is more dangerous because of information technology – because the poor know exactly what the rich have.”

Madeleine Albright
former US Secretary of State
“The Future of Work” at the Aspen Institute, 2010.

From an investor’s position, hospitals with high revenues from medical tourism are in a vicarious position from many dynamics including civil unrest; the potential of carbon credits, from sovereign default or simple refusal to pay, as we’ve seen in the Caribbean and GCC regions; and from a wide range of additional challenges.

We also think investors must have more than an exit strategy, they should have a tactical exit plan, one that is reviewed quarterly.

Are there opportunities beyond tomorrow for sound, stable investments in medical tourism?

Absolutely. And those opportunities are in politically stable countries with a growing middle class and geographically positioned in such a way as to minimize distance. The future here will be regional rather than global.

Regulatory Risk

And when we narrow our focus to a regional strategy, regulatory risk stands out, and will always be a challenge. China’s efforts to reestablish a healthcare system are being done in a manner that, in some ways, is relatively easy in a command society.

But with relative ease comes risk. For some time now I have been writing about the potential for nationalization of the pharmaceutical industry in several countries.

Russian leaders have spoken of holding onto strategic state assets or sectors, including healthcare. Even as it sells off sea ports and generation plants, the government now holds onto a majority of ownership in those companies it deems as strategic to the state. And pharmaceuticals are certainly a strategic asset, particularly in a future of pandemics and conflicts. Earlier the MoH called for 50% domestic pharma production for the future, and *this year* leaders called for the transfer of pharmaceutical technology to the state.

We see the rise of nationalism, as noted earlier, also at play on this topic. We only need to look at British Petroleum and Lenta, the hypermarket group, to see the challenges of heavy investment in markets with strong national interests. State control of pharmaceutical development, production, and distribution is a serious question. One that is being raised by leaders themselves.

Mobile Health and its Impact on Africa

The last opportunity I'll talk about this evening is mobile health or m-health. This is clearly a winner for the future.

I believe m-health will have its greatest impact in the continent of Africa. But to begin, there are many perceptions of the sub - Sahara region. The one I prefer to focus on includes:

- Johannesburg Stock Exchange was established in 1887. 16 exchanges today.
- 2010 in Kenya, total mobile payments = 20% of its GDP. (11% in 2009.)
- Nigeria floated its first international bond in January, 2011.
- Up to 1/3 of the total population is middle class, and tend NOT to use public health services.

As I said, I believe mobile-health will have its greatest impact in the continent of Africa and I will use the states of Central and Easter Europe, as an example.

Many readers know I have spoken and written about the lack of shock therapy in healthcare after the fall of communism in the early 1990s in CEE. But in the financial and telecommunications sectors, the fall of communism had a profound impact. Rather than build networks of copper telephone lines and banking back office bureaucracies, the countries of the CEE region jumped the west in technology implementation by capitalizing on the most advanced technologies.

So, for Africa we see the opportunity of significant advances in healthcare through the *rapid* implementation of m-health. For instance: Clinical trials are now being done with m-health technology in South Africa. Smart phone apps are able to detect body temperature and scientists are working to map temperature at a far greater level of granularity than satellites. And Philips Medical recently introduced digital screening of lab results, much like the PAC system in radiology. The implications of this are tremendously positive, with lab readings done in a matter of hours rather than days, and pathologists reading slides from around the world, almost in real time.

These recent developments will have a profound impact not only for pharmaceutical and diagnostics, but for all of medicine. They immediately expand the capability and reach of clinicians. And mobile health will certainly redefine the hospital of tomorrow, in Africa and elsewhere. It is the technological advancement that will enable Africa to leapfrog the confines of today.

Conclusion

Well, over these past few moments we've touched on only a few of the many, many opportunities and risks private healthcare will face beyond tomorrow. In general, I can say:

- We know the future will focus on regional growth rather than a “global” strategy.
- Investors must begin to use demographics and geopolitics in their proper context.
- Risk mitigation only starts with medical, but must include many more variables.
- And supply shortages will be a constant in the future.

Healthcare; it is a big, bold and some say a bodacious sector that will always have to deal with change. While it is difficult to plan for change, you can anticipate the risks and opportunities beyond tomorrow.

And the impact for you here tonight? Well, you are the early adaptors, the change leaders who are bringing efficiency and efficacy to private healthcare in the international market. This IFC conference is the right place to network and learn, and I know you'll find the next two days most valuable.

I look forward to talking with all of you. Best of luck, and thank you for your time.