

nabhealth



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# Health in Focus

## Health Sector Insights

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# Introduction

This paper has been prepared by NAB Health to give some insight into the changing face of the health sector in Australia.

As the leading health financial institution in Australia we consider ourselves to have the most specialist health bankers in the most locations. Our aim is to truly support the health sector to enable financial sustainability as well as ensuring a prosperous and healthy community.

This report is aimed at providing insights from NAB Health's customers and key sector strategy executives for Practitioners and Specialists, Pharmacy and Corporate Health.

Change over the coming years is both essential and inevitable – the health sector of 2035 will be vastly different from the health sector of 2015.

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# 1

## A new Australian health ecosystem

**As the healthcare sector responds to changing market dynamics and the challenges of a changing funding paradigm, the centrality of the patient is more important than ever.**

A 2014 study by Deloitte<sup>1</sup> into the highest growth sectors of Australia's economy over the next two decades laid out succinctly the enormous opportunity for health.

"Many of the domestic growth opportunities that Deloitte identifies result from the collision of health costs and ageing," the report read. "That includes obvious candidates (residential aged care, retirement living and leisure, community and personal care, and preventative health and wellness), but also the digital delivery of health ..."

While the sector might seem weighed down by concerns about funding and the uncertainty that usually accompanies a need for change, there's no doubt about the opportunities the future presents.

What's equally clear is the need to embrace change to facilitate growth.

Earlier this year a paper prepared for the Prime Minister's office looked at the potential for the reform of Australia's Federation. Health was one of a number of significant themes taken up by the whitepaper and in the health section. Five options for public hospital funding were canvassed:<sup>2</sup>

1. The Commonwealth no longer funds public hospitals (it currently contributes 37% of the funding)
2. The Commonwealth establishes a benefit scheme similar to the Medical Benefits Schedule for all hospital treatments – whether performed in a public or private hospital – with the states to cover the gap between the proposed benefit and the actual cost.
3. The Commonwealth and the states jointly fund individualised care packages for patients with or at risk of developing chronic conditions.
4. The pooling of Commonwealth and state funds, with regional agencies being established which would purchase health services for people in the regional areas.
5. The Commonwealth to completely take over funding health services.

## **Future Connected Patient Design Principles<sup>3</sup>**

- > Make life easier and more convenient for me
- > Let me take ownership and empower me
- > Include and respect me in the relationship
- > Provide me with confidence along my journey
- > Keep me informed
- > Enable transparent access to my information
- > Give me the best care you can
- > Reduce my costs.

In the aged care sector, regulatory, demographic and lifestyle changes are driving growth and innovation. For health professionals, as with everyone else in the sector, the question is what impact will technology and digital evolution have?

### **Sustainability in a high-pressure environment**

Pressures are also mounting from increasing consumer demands and expectations, chronic diseases, technological advances and more expensive new drugs.

A particularly significant issue is the impact of an ageing population. We are living considerably longer than was expected even 30 years ago, when many of the funding models we now operate under were designed and instituted.

Pressure is also being created by government funding restrictions that have all the appearance of being here to stay. At the same time, statistics

suggest that healthcare workers like nurses and aged care workers are part of an ageing demographic that will lead inexorably to a massive drop in the number of people who can deliver services unless the jobs can be made more attractive to younger people.

To achieve long-term sustainability the health care sector requires new and much more innovative ways of delivering health care from our available resources. That's where technology will play such a vital role.

Technology allows collaboration not just nationally but internationally, and we are seeing this as overseas healthcare players enter the Australian market. As the health and care sector adapts and changes, we need to ensure that high quality care is not compromised. Care needs to be accessible, equitable, culturally sensitive, socially responsive and patient-centric. People need to be able to access it at the right time and at the right place at the right cost for the right outcome – the mantra that the Federal Government is using for Primary Health Networks.

### **A framework for the future**

A vital question is what 'patient-centric' means in this environment.

In response to this very question, NAB Health conducted extensive market research and through that formulated a number of fundamental design principles that we believe could underpin a future Australian health ecosystem (see highlight box).

Change isn't easy, but it is critical. To create the change we need in the health ecosystem, we need to think seriously about our funding paradigms.

Today the system works to fit the funding model, rather than the funding model suiting the system, so one of the things we need to do – much like the Federal Government is doing with its report into federalism – is to look at new funding models.

Our health ecosystem is strained and disconnected; in the face of increasing pressure from an ageing population, our current path is unsustainable without change.

Misaligned incentives between state and federal governments on one side and the private and public sector on the other need to be addressed by significant reform and market deregulation. Additionally, information asymmetries in the patient-practitioner relationship often result in the inability of patients to take ownership of their health journey. And data isn't always recorded or readily accessible to facilitate decision-making.

As connectedness and data sharing increase over time, concerns around practitioner-patient confidentiality and data privacy will need to be addressed as a high priority.

### **An end-to-end view**

To lay the foundation of a future-state patient-centred ecosystem, NAB is working to connect and strengthen the ties between each and every player in the Australian health system for the benefit of individuals, health service providers, funders and the community.

As the largest and most connected banking player in the health sector, NAB Health is in the fortunate position of being able to draw on the experience, wisdom and advice of our customers.

Through a customer survey, conducted in April 2015<sup>4</sup>, we gained a number of insights into the way customers were thinking about finance. Among them were:

- Three quarters of the 1,775 NAB Health and Medfin customers interviewed felt it important that the bank they use has specialists in the health and medical sector
- Specialisation is best demonstrated through an understanding of the specific needs of health professionals and of the sector
- Changes in government health policy and taxation rules, finding and retaining employees and managing cash flow are the major issues NAB Health and Medfin customers faced when making long-term decisions.

### **The data journey**

For Nehemiah Richardson, General Manager of NAB Health, responding to the long-term sustainability of the health sector starts with co-operation, collaboration and data.

“What is critical is that we have all stakeholders – state and federal governments, community organisations, private health – armed with the right data to ensure that we are optimising the system itself and that the funding model across the entire sector is actually designed or created to suit those outcomes,” he comments.

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**Nehemiah Richardson, General Manager of NAB Health**

Digital technology provides plenty of data about how people spend money on health in the system. The Medicare Benefits Scheme, the Pharmaceutical Benefits Scheme, and NAB's own HICAPS business provide information over long periods of time on how money is spent.

What's difficult is how you then identify with that data as an individual. Another problem is that the data is retrospective.

"Data allows people to make the right decisions and deliver services in the right way, so that individuals in our communities are treated the way they need to be," comments Richardson.

"In light of key trends and challenges, we believe that leveraging data for insights is critical to rebalance the asymmetries of health and healthcare, and move towards a patient-centred service model."

A key priority for the industry is a mechanism to securely collect, store and mine data for the benefit of the community and the health system – with the right commercial advice and insights to enable this to happen.

In order for different funding models to be developed, data needs to be developed to show the cost – or, in fact, the cost savings – to the system of preventative health. That information has to then be leveraged to provide different capitation models or risk-based underwriting of outcomes for care.

### **A collaborative approach to data**

Against this backdrop, there's an urgent need for sector participants to collaborate.

"We need to establish networks to allow people to share that information in a way that serves the patient," comments Richardson.

To this end, NAB Health recently hosted a focus group session with 40 key industry stakeholders from various health backgrounds in one room. Everyone in that room came to the same conclusion by the end of the session – healthcare needs to be patient-centred.

"The patient is the centre of everything. Technology and data is about enabling the patient to demand more from their health system – particularly private patients, who are financially contributing to their care," notes Richardson.

"It is all about helping the patient to better manage costs, know where to go, make sure they have the right people to treat them and the right treatment plan to keep them out of hospital, to better manage pain and keep themselves healthy."

Ultimately, a more collaborative approach means our healthcare system can support a more healthy society and avoid the sustainability issues that are so concerning.

## **An eye on global trends**

A number of key global trends will influence the way we implement our vision for a connected patient ecosystem in Australia:

- 1.** Leading edge companies are expanding their service offering to a complete user journey from start to finish.
- 2.** As technology advances, users are increasingly adopting smart devices to measure their health and as a result living measured lives.
- 3.** Contactless payments are surging and the payment space has become more complex as non-traditional players disrupt the market.
- 4.** Businesses are seeking to re-humanise digital interactions by re-integrating people back into the core of their service.

## 2

# New frontiers for practitioners and medical specialists

**The practitioner landscape is fast evolving as new initiatives, technology and collaboration create new dynamics.**

**Picture this:**

A family moves into the area where you operate as a GP. They need to find a medical practitioner so they consult an online ratings site that allows patients to comment on, and rate, their doctors and specialists under criteria like bedside manner, waiting time, cost and efficacy.

**Picture this:**

You walk into your GP. Your appointment has been booked online, you do not have to wait as you are able to walk straight into the consulting room. You pay via your smart phone and your prescription, if required, is waiting for you when you pick it up from the pharmacist, or it is delivered to your home.

**Or picture this:**

You are 32 and have just attained your specialist qualifications. For the first time in your life you can begin to make money to secure your financial future. But where to set up practice? Your banking advisers have access to data<sup>5</sup> that can help you make a decision – the percentage over the most common fee patients paid, the average return on investment for expensive equipment for specialists in certain geographic locations, as well as benchmarking on key financial metrics.

Healthcare is changing, driven by data, devices, demographics and a diminishing capacity for governments to pay.

### **A new era of collaboration through Primary Health Networks**

One of the key areas where the sector is looking for collaboration to reshape the landscape is through Primary Health Networks (PHNs).

PHNs came into being on July 1, replacing Medicare Locals. The key objectives are twofold: to increase the efficiency and effectiveness of medical services for patients, particularly those at risk of poor health, and to improve coordination of care to ensure patients receive the right care, in the right place, and the right time.

It's hard to argue with these objectives.

General Practitioners are now specifically included in the process, which should lead to better collaboration, an essential element if the system is to work as intended.

Also, the last Federal Budget provided \$34 million for a comprehensive review of items funded through the Medical Benefits Scheme. The move was welcomed as being long overdue, but interest will be in whether new rebates will reflect both the cost and the value of such services.

**Our research has shown us that the following key words and phrases are commonly used by practitioners to describe the future of health:<sup>6</sup>**

**Digital, paperless,**  
**accessible, efficient,**  
simple, **world-class,**  
**personalised,** human,  
informed, **collaborative,**  
sustainable, **affordable,**  
**connected,** provides  
better outcomes, **puts**  
**the patient in control,**  
***gives me what I want***  
***when I want it***

### **Powerful customer insights**

In keeping with our desire to give better advice through being better informed, NAB Health conducted an extensive survey of our NAB Health, HICAPS and Medfin customers.<sup>7</sup>

The primary pain points they identified included:

- A lack of connection – the friction of cumbersome processes and information
- Transaction dissonance – a feeling of guilt and conflict associated with payment
- The load and complexity of managing transactions for multiple practitioners in one practice
- Practice management and accounting systems vary across modality and institution, contributing to fragmentation.

Patients also shared their views on problems associated with services across the sector:<sup>8</sup>

- A continual need to fill out paperwork at times of stress when the omission or inaccuracy of information can lead to adverse outcomes
- The burden is often on the patient to communicate information and pass paperwork between practitioners
- Discomfort that comes from not knowing the true cost of a procedure until the point of payment.

### **The technology revolution**

Technology will continue to change the health landscape. Already innovators are working on sensors that look like tiny tattoos on the hand that could take the place of blood tests by recording a person's vital pathology data and sending it through mobile networks to a health professional.

Others are working on ingestibles that can be swallowed after operations and will report via the same networks on the success or otherwise of the recovery period, enabling patients to be discharged much earlier from hospitals.



The much discussed e-health record is seen as an essential part of any substantial and sustainable changes to the health landscape. The public has been reluctant to embrace the measure but the recently announced opt-out system – which means that everyone will be enrolled unless they specifically choose otherwise – should speed up adoption.

Mobile technology and digital technology are set to fundamentally change how people are diagnosed and give people the opportunity to monitor their own health in concert with their health professional.

It will also enable fundamental changes to interaction between patients and health professionals, including bookings, script renewals, referrals and information updates.

For Paul Freeman, CEO of NAB's Medfin Finance, the future for practitioners is exciting.

"People are ready for change and most see the need for it. If we could redesign the system from scratch then certain things we do today wouldn't make sense if viewed through the lens of patient care. If we all give a bit, perhaps we can imagine a different way of operating."

Research among NAB Health and Medfin customers<sup>9</sup> highlights the lack of business education included in the degrees undertaken by health professionals. Another telling insight was that while practitioners enjoy helping people with their health problems, many had feelings of guilt and conflict associated with the payment transaction. "Put simply, they do not like to take payment themselves," says Freeman.

"Across public and private, health centres and clinics do not have a shared process or system for all the health providers and businesses. Some elderly patients still pay with cheque or cash and many practices still post their bills without even considering email."

The health industry is still heavily paper-based and requires constant documentation of patient interactions, treatments, steps and

history, however Freeman believes more agile practitioners and Millennials are moving towards cloud-based services and digitising their patient information history as they grow.

"Leading-edge companies are increasingly aware of what we do before and after we use a service," he says. "A transaction is no longer the end of the conversation. Governments around the world are encouraging patient-centred, outcome-based operating models intended to drive efficiency."

### **A shared decision-making model**

The future is one where the patient is the expert – in their values, their preferences and the impact of disease on their life – while the medical practitioner is the expert in diagnosis and treatment.

Given that, a shared decision-making model would achieve:

- Greater accountability
- Improved adherence to treatment plans
- Increased satisfaction, trust and loyalty
- Increased efficiency
- Better health outcomes.

Initially, change will add to the complexity of life in the world of healthcare as the sector evolves. That's why industry expertise is so important.

NAB Health's specialist health offering through Medfin for over 20 years and HICAPS for over 16 years means we have a unique view of what's happening.

"We have a great ability to network and get people together and some of the best conversations we've had involved getting adversarial groups into the same room to talk," says Freeman.

"We know that life in the health sector can be daunting – right from the start. That's why we try to help our clients throughout their full life cycle – from being a medical student, to setting up their own practice and right through to succession planning and retirement."

# 3

## Developments in the pharmacy sector

**The sixth Community Pharmacy agreement, Technology, innovation and a new approach to biosimilar medicines are top of mind for Australian pharmacies.**

Stability now until 2020? Maybe.

In 2015, governments don't double handouts without wanting something in return. When the Federal Government put \$1.26 billion into the sixth Community Pharmacy Agreement (CPA) for professional services – twice the amount in the fifth CPA – they did so because they wanted to see change within the sector.

That \$1.26 billion for professional service is designed to help with the development and implementation of new professional services aimed at improving health outcomes within local communities. Health Minister Sussan Ley recently commented that the idea is to open up the primary care space to include pharmacists. "We want to make sure that we give them a key role in the primary care teams of the future. That's an exciting new structural reform for the future," she comments.

### **Pharmacies as health destinations**

The Health Destination Pharmacy (HDP) initiative pre-empted Minister Ley's comments when it began last year.

The Pharmaceutical Society of Australia-led program that NAB Health partners with is an evidence-based practice change platform for community pharmacy. The aim is to allow pharmacies to be repositioned as health destinations for the community, with the

pharmacist as a recognised, accessible primary healthcare professional. This is designed to ensure the sustainability of the industry in the face of rapidly changing circumstances.

HDP enables pharmacists to shift their practice to provide a stronger focus on consumer self-care, with improved pharmacist-consumer engagement and provision of a range of evidence-based minor ailment and professional pharmacy services. Particular emphasis will be on the needs of people with chronic diseases like diabetes who have traditionally been a huge drain on resources from the acute care sector.

Following a successful pilot, the program will move into full implementation later this year. It's no magic bullet, with experts warning that making the change would prove a steep learning curve for some pharmacists, as many will require continuing education. This education is more centred around changing the culture of a pharmacy business, from pharmacists being behind the counter dispensing scripts to being out the front of the store with their customers.

Data is integral to changing business behaviours. Customer numbers, average sale dollars as well as dollars per script will provide pharmacy owners with critical information to help to measure success.

## Dollars and cents

While the sixth CPA delivered certainty and a number of positives to the industry, it has still created some uncertainties. These include an estimated reduction in gross profit per script of around \$2 and queries about the impact of the growth in generics and the impact of price disclosure on the price paid under the Pharmaceutical Benefits Scheme, which is meant to deliver almost \$10 billion in savings over the next four years.

In a major positive for the sector, the Administration, Handling and Infrastructure (AHI) fee has been replaced. Under the sixth CPA the AHI fee will be: \$3.49 for all drugs priced up to \$180 (more than 98 per cent of scripts), \$3.49 plus 3.5 per cent of the amount over \$180 for drugs \$180 to \$2,089.71, and will be capped at \$70 at a price of \$2,089.71 and above.

This works out to an average of around \$3.75 per script in 2015-16 – already \$1.13 higher than the 2014-15 mark-up – and as it will be indexed to CPI every year it is expected the average will rise to around \$4.15 by the end of the agreement in 2020.<sup>10</sup>

The new agreement also puts a floor on remuneration, with a \$6.93 dispensing fee plus \$3.49 AHI now being the minimum remuneration for any script.

Included in the \$1.26 billion for professional services is \$600 million in additional funding to support new and expanded programs to be delivered through community pharmacies.

Other significant benefits of the sixth CPA include:

- Increased investment of \$2.4 billion
- Pharmacies directly remunerated for NDSS
- Additional funding for chemotherapy outside the sixth CPA envelope
- Location rules extended to 2020 with all changes to be agreed by the Guild
- Enhanced access to biologics and specialised drugs
- Focus on Aboriginal and Torres Strait Islander people and rural and remote areas.

The sixth CPA also ratified an earlier announcement by Minister Sussan Ley that provided for an optional \$1 discount on patient co-payments for prescription medicines. The government believes the measure will foster competition, but many within the industry fear it will drive customers to cheaper alternatives without the patient receiving advice.

## Switching biosimilar medicines

There is concern in some quarters about the decision to allow pharmacists to offer cheaper biosimilar medicines to customers – making Australia one of only two countries in the world, the other being Venezuela, to allow such substitution.

The government believes it will save as much as \$880 million by shifting onto cheaper drugs that are similar but not exactly the same.<sup>11</sup>

Now pharmacists will be allowed to offer customers the option to switch to a cheaper

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biosimilar medicine, in much the same way they can substitute cheaper generic drugs.

There have been concerns expressed that switching between different brands may pose some risks to patients and doctors say it should only be done under medical supervision.

Before a pharmacist is able to offer a switch the Pharmaceutical Benefits Advisory Committee (PBAC) must decide it is safe to switch the biosimilar medicines.

In making that decision the PBAC says it will have a default position of allowing substitution and consider absence of data about safety or efficacy problems with the drugs as relevant.

Doctors can prevent any substitution by ticking a box on the script and patients can request that the pharmacists not switch to biosimilars.

### **The march of technology**

Technology will also continue to inexorably alter the way business is conducted – with or without five-year CPAs.

For example, prescriptions could be written online and filled through automatic dispensing devices and 24-hour access to online ordering and home delivery. The future for pharmacists is how they differentiate

their services, not just from other pharmacies but from machines that can dispense prescriptions.

Paul Littleton, Manager, NAB Health's Pharmacy division, is confident that pharmacy's position of trust within the community will continue to hold it in good stead.

"Trust is a real point of differentiation for pharmacies," he says. "In years to come they need to leverage the professional services side of things, such as preventative medicine-type arrangements."

Pharmacy has a very unique place in the community and in provision of primary health care. "But pharmacists need to transition their business models from heavy dependence on government support to a model that can still be reliant on government but equally able to take on more services," notes Littleton.

This will create additional revenue and move away from a sole focus on managing expenses. "Businesses can go broke by solely focusing on managing expenses," he adds.

"As the biggest player in this space, NAB Health has strong relationships with key stakeholders, including government, and can point out the need for any change to be done in a sensible and a transitioned arrangement so confidence will be retained in the industry."

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**Paul Littleton, Manager, NAB Health's Pharmacy division**

# 4

## What's next for aged care?

**An ageing population and workforce will mean finding innovative ways to deliver aged care.**

It's no small wonder that aged care is widely expected to be one of Australia's growth industries over the next few decades. The figures tell the story: in 1984 there were 120,862 Australians aged over 85; today there are five times as many and by 2045 there will be 14 times as many.

Put simply, the great cohort of Baby Boomers are getting older and people are living longer: 30 years ago life expectancy at birth was 75.8 years. In 2045 it is projected to be around 90.4, a 15-year increase in just 60 years.

We also have an ageing workforce in Australia. The median age of workers now 40, but in the aged care sector the median age for a residential direct care worker is 48 and for community direct care workers it's 50, giving aged care the oldest workforce.<sup>12</sup>

Labour costs represent the largest fixed cost for providers, continuing to create more competitive remuneration and working conditions.

### **Sector snapshot**

Based on current policies it is estimated that around 76,000 additional aged care places will need to be built over the next decade to cater for increased demand, which is more than double the number of places built in the past decade.

The good thing is that profitability has generally increased over the last few years, despite the loss of payroll tax supplement and dementia supplement, and there is certainty around the regulatory regime. And, importantly, the regulatory reforms have seen the number of listed operators grow from zero to three (with more in the pipeline) over the last year with a resultant influx of capital into the sector.

The sector remains highly fragmented, with major listed providers controlling approximately 3 per cent of market share by number of residential beds, though they are all aspiring to grow.

With a sharp focus on growth, cost-effectiveness and efficiency there has been considerable merger and acquisition activity in the market, with greater than 17,000 beds changing hands over the last 18 months as many seek to increase scale in order to realise growth opportunities and improve service delivery and infrastructure efficiency.

The Living Longer, Living Better reform package included greater choice for residents to pay for aged care accommodation, with the option of paying either a lump sum payment, a periodic payment, or combination of both. This means operators are more vulnerable to shifts in funding from lump sum deposit payments from each new resident, which

could create liquidity concerns for some smaller organisations and may speed industry consolidation.

A report by the Aged Care Financing Authority, *Factors Influencing the Financial Performance of Residential Aged Care Providers*, which was released in June, showed that some key characteristics of top operators included strong management capability, well maintained facilities in good locations, and strong ACFI revenues.<sup>13</sup>

The analysis was taken from 2013 financial data so does not reflect the significant policy changes which have since come into effect. But it showed that operators' financial performance did not improve as the number of facilities owned increased, suggesting that "economies of scale from multiple facility ownership are not strong".

The analysis also pointed out that while location is important, operating in a regional area doesn't always mean financial hardship, with 37 per cent of the top performers in two of the four groups being from regional areas.

There is also a skew to high care and much older demographics among aged care residents. People are coming into the system much older and frailer, with the age that people used to go to aged care – 75 – now being the age that people head to retirement villages.

That demographic change means that the traditional supply model that has been relied upon may need to be recalibrated. Regardless, there's no doubt the next decade is going to require a significant increase in supply but innovation is also going to drive changes in what is provided and how it's provided.

Operators are already looking at providing for the continuum of care – with precincts being established to allow for a seamless transition of people from retirement village living to aged care.

Already the changing demographics have seen some NAB Health aged care operators adapting their business structures to become more medical in nature, with services like rehabilitation, pharmacy, mental health and acute care facilities being provided on the same campus.

The more flexible pricing structures are leading to more choice, with gyms, pools, shops, cinemas and kitchens with flexible dining options being offered.

Given the shortage of suitable land in high need areas, the traditional concept of single level homes and facilities will need to be turned on its head with higher density and more apartment-style living being offered. There has already been talk of having aged care facilities within retail towers, providing vibrancy and social opportunities for residents.

With the rising cost of aged care to government there is a big push for in-home care. A number of technological innovations are likely to make that more viable, such as wearable devices that will be able to take observations of a patient remotely without them actually feeling that they are being observed or the use of television screens to enable carers to contact and assess aged people remotely, without the need for the patient to leave the home.

But while in-home services can keep people out of age care facilities there are limitations to what technology can currently do for two of the biggest issues facing the age – social isolation and deterioration in mental health.

### **A flexible future**

"Over the next 10 years, care needs will change and consumers will have much more say in terms of what they are after from a provider and what they're willing to pay for," says Natalie Smith, NAB Health's Head of Corporate Health. "It's going to change the financial burden somewhat, and when people

start to feel like they're paying more for it, it's going to lead to innovation in services offerings for care needs for consumers."

While aged care continues to find it hard to attract nursing staff in search of job satisfaction and career prospects compared to their acute hospital counterparts, the changes in the industry are likely to make it a more interesting workplace, with the provision of facilities such as a rehabilitation hospital and medical facilities within the aged care facility adding to the nursing experience.

The sector, says Smith, is in a state of evolution. With consumers becoming better informed and empowered, operators are now being asked by consumers to outline what is being offered in return for their money. Consequently, marketing and customer service practices will be increasingly important, as will the provision of online processes and the understanding and adoption of social media.

"Many people have had to really rethink their approach to what they provide, and how they are making those services known to the market. They are just starting to realise that they need to demonstrate how they compare with the facility down the road," notes Smith.

There are some innovators offering additional services and some of the more nimble operators will continue to do that. "However, a large section of the market hasn't caught up with where the industry is heading, and is still struggling to come to terms with what their offering is and how they are marketing," comments Smith.

### **Private hospital sector demand**

The private hospital sector is experiencing a similar demand profile to aged care. As people turn 65 the number of times they require hospitalisation increases three-fold and continues to increase as they age.

The problem has been that without the financial wherewithal that the accommodation bond provides for aged care operators, there has been little financial incentive for operators to build significant new capacity, especially as the construction of an acute care hospital is a major infrastructure investment which has a lengthy return on investment.

"While a number of innovations have led to shorter hospital stays, healthcare delivery deficiencies in the current system needed to be addressed in order to relieve pressure on hospitals," comments Smith.

Collaboration is critical to making this work and this is where private investment plays a very important role in the health sector.

However, Australia's private hospital sector is buoyed by high levels of private health insurance fund membership – around 47 per cent in 2014<sup>14</sup> – and supportive government policies designed to increase the use of private healthcare services in order to relieve pressure on the public system.

The sector, which operates around a third of Australia's 86,300 hospital beds, also gains most of its payments from health insurers (68 per cent) and governments (21 per cent).

For health insurers it is about managing private health insurance premium pressures. We are seeing a growing use of incentives by private health insurers, particularly for preventative health, such as multi-year policy options, loyalty programs that increase rewards each year of membership and discounts for positive consumer health behaviours.

We are also seeing some interesting partnerships between private, not-for-profit and public health providers as well as with specialist groups. This is being driven mainly by changing consumer behaviour, with consumers looking to source all their health service needs from one provider, rather than having to go to multiple services and explain their health needs over and over again.



Across the healthcare sector, opportunities are growing as technology, regulation, new government initiatives and changing consumer demands all conspire to create change. At the same time, this high level of dynamic transformation brings specific challenges. Healthcare sector participants need to be armed with all the resources, insights and relationships they need to navigate this changing landscape.

To find out how we can help your business, contact a NAB Health or Medfin representative today:

**nab.com.au/health**  
**medfin.com.au**

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