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*Australia's  
healthcare system*

**&**

**An opportunity for  
economic growth**



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# About the authors

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# Executive summary



**Australia's universal healthcare system** is under pressure. Many healthcare professionals, policymakers, and government officials share the view that although the quality of care is high, the country's healthcare spending is unsustainable and a drain on the economy.

We propose an alternative view — one that sees the healthcare industry as a positive contributor to the economy through GDP, employment, innovation, and exports. Australia has the potential to sell its telemedicine and other telehealth services abroad, capture a share of the growing medical tourism market, and invest in foreign hospitals and other healthcare institutions.

In this report, we examine the Australian healthcare industry and identify opportunities where it can better compete in the global healthcare space by maximising its potential for export, attracting foreign investment and talent in the private sector, and commercialising public schemes.

Our suggestions for a way forward for Australia may also have application for other countries with strong healthcare systems that are facing similar challenges.

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# *The future of Australian healthcare*

Compared with other countries' health systems, Australia's healthcare system and its outcomes rank highly. In 2014, Australia ranked sixth in the world in terms of healthcare efficiency, up from seventh in 2013, and rated seventh in life expectancy.<sup>1</sup> It consistently ranks at the top of the Better Life Index of the Organisation for Economic Co-operation and Development (OECD), which measures the way citizens perceive their physical, mental, and social well-being.<sup>2</sup>

Australia's high standard of living and excellent healthcare system bring many benefits to the majority of the population, including a longer life expectancy. Government data estimates that by 2055, average life expectancy will be 95.1 years for men and 96.6 years for women.<sup>3</sup> The country also has low infant mortality, with the number of infant deaths falling from 1,264 in 2002 to 1,094 in 2013.<sup>4</sup>

Although Australians are expected to remain active longer due to better health, a much older population will inevitably put more demand on the healthcare system. A significantly older population will suffer more chronic illness and degenerative diseases, and require longer hospital stays and more follow-up care. Private healthcare figures alone show that customers ages 60 to 79 are the group that receives the largest payout of hospital benefits.<sup>5</sup>

As older Australians retire, the labour force will shrink. The result will be less tax revenue to pay for the health services the greying population will need. Even with the government's current plan to increase the retirement age to 70, Australia's labour participation is expected to continue to fall.

It is no surprise then that Australian policymakers' focus has been on finding ways for Australia to continue offering a world-class healthcare system in the face of these challenges. Overall, the current view is pessimistic, with policymakers and economists commonly referring to the healthcare system as a burden to government and society, and healthcare spending seen as fiscally unsustainable.

We propose an alternative view — one that sees Australia’s healthcare spend as an opportunity. With the right policy direction and careful management, the Australian healthcare system could be a major contributor to the country’s economy. The sector is already one of the country’s largest providers of employment, and the fifth largest contributor to Australia’s GDP.<sup>6</sup> We believe that it could contribute even more to the economy by attracting foreign investment and talent, especially in the R&D area, and by exporting the healthcare services in which it already excels, such as telemedicine, along with the expertise of its high-standard public and private hospitals. The latter idea has already been successfully implemented by the U.K. National Health Service (NHS), which launched Healthcare UK in 2012 to sell its expertise in areas like primary care and healthcare education and training.

*With the right policy direction and careful management, the Australian healthcare system could be a major contributor to the country’s economy.*

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# *Opportunities for economic growth*

There is an opportunity for Australia's healthcare sector to become a major export industry (*see Exhibit 1, next page*) and make a positive contribution to the economy, to the extent that it could help compensate for the recent and sudden decline in the mining sector. The latter industry gave the Australian economy a tremendous ride from 2005 until the last couple of years, but it has softened as China's appetite for infrastructure projects lessens, and prices of coal and iron ore fall across the globe. Now, with the mining boom fading, Australia will need to find alternative export industries if it wants to maintain its economic strength.

As well as providing a high standard of care for its people, the Australian healthcare sector is one of the country's highest-performing sectors economically. Healthcare is growing at double the pace of Australia's GDP. Compared with its regional and global peers, Australia ranks in the top three in terms of its private–public partnerships, adjusted private health spend per capita, and its ability to attract overseas healthcare talent to live and work in the country.

Although the sector contributes much to the economy, reviews of the healthcare system have revealed significant wastage in spending. For instance, the Hambleton Review of December 2015, the government-commissioned report of the Primary Health Care Advisory Group headed by Dr. Steve Hambleton, found that 48 percent of hospitalisations for chronic conditions could have been avoided.<sup>7</sup> The same review also found that 23 percent of visits to hospital emergency departments could have been dealt with less expensively by a general practitioner.

What's more, Australia is behind top destinations such as Thailand and Singapore when it comes to medical tourism, and, compared to other OECD countries, has a fairly low rate of industry mergers and acquisitions and a low spend on R&D.

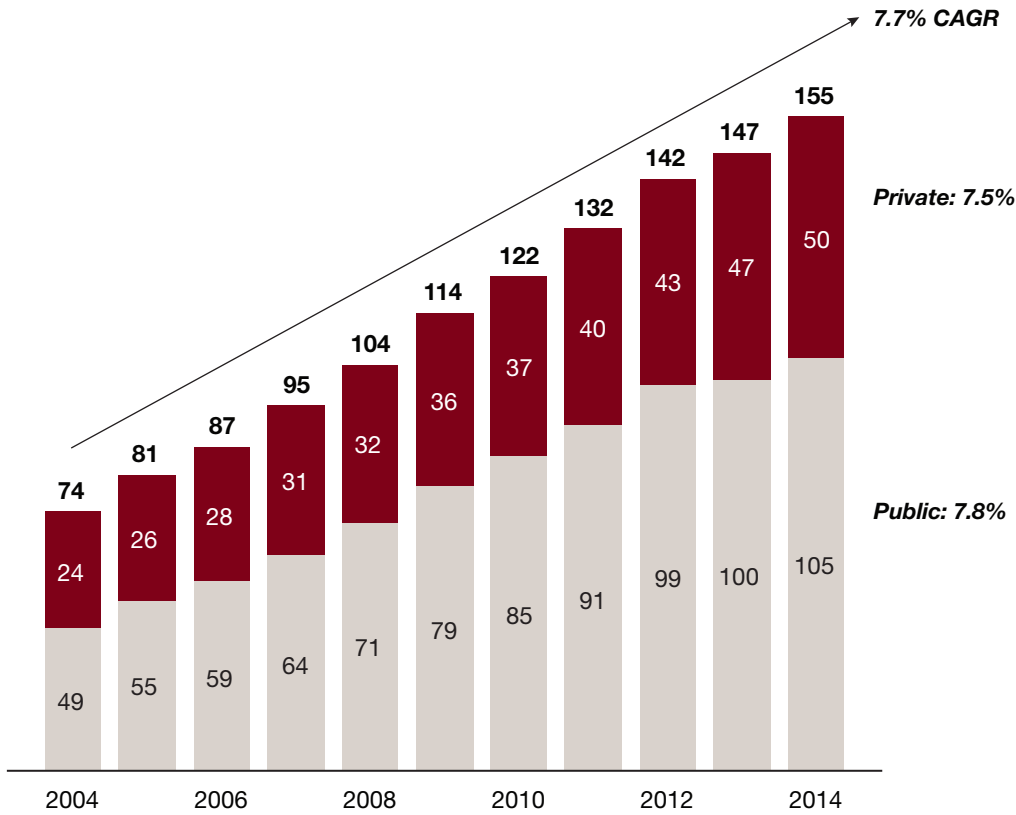
Currently, Australia's strongest healthcare exports lie in health merchandise — medical equipment and instruments and over-the-

Exhibit 1

Healthcare can help make up for a softening resource sector

Public health spending is growing faster than private

Health expenditure in AU\$ billions, 2004–14



Benefits of growing the healthcare sector

Economic benefits of private health sector

- Grow revenue and profits
- Build global capability and scale to compete
- Increase foreign direct investment (FDI)
- Increase exports
- Attract overseas talent

Economic benefits of public health optimisation

- Improve healthcare outcomes
- Improve public finances
  - Reduce public health costs
  - Increase tax revenues from private sector

Note: Numbers may not add up due to rounding.

Source: Australian Institute of Health & Welfare; Australian Bureau of Statistics; Strategy& analysis



counter pharmaceutical products — which added AU\$4.7 billion (US\$3.5 billion) to Australia's economy in 2013. By comparison, its healthcare service exports pale into insignificance at just \$30 million.

We believe there are also a number of opportunities for both government and private healthcare to work together so that the healthcare system continues to serve the Australian general public and be a strong contributor to the country's economy.

To make this happen, the public- and private-sector players in Australian healthcare need to consider their roles in the system, particularly by addressing the following questions:

- What kind of policy changes could help the Australian government reduce unnecessary spend, freeing up funding to boost potentially strong areas such as R&D?
- How can government and private industry work together to follow in the footsteps of Australia's highly successful finance and education service exports — and potentially help fill some of the gaps left by a softening resource sector?
- What role can Australian telecommunications companies play in helping develop telehealthcare — an area where Australia already has developed strong capabilities?
- How should the Australian government ensure that it can continue to fund its ageing population's healthcare?

We see a number of ways that the government and private industry can provide world-class healthcare to Australians, at the same time boosting the country's healthcare exports and stimulating the local economy. The strategies for strengthening the healthcare system would revolve around the three main links in the healthcare value chain. The three links are suppliers, care providers, and insurers.

Additionally, consumers themselves can be a link (*see Exhibit 2, next page*), as a market for medical tourism and innovative programmes aimed at wellness and preventive care emerges.

Exhibit 2

Framework to stimulate health sector's contribution to economy



**Private sector** (increase revenue/GDP)

Encourage local investment and FDI in biotech and medical technology R&D	Enable offshore delivery models (e.g., telemedicine, teleradiology)	Innovate the private health insurance business model (e.g., health savings accounts, superannuation funds)	Develop medical tourism in Australia Innovate in wellness and prevention programs
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**Public sector** (increase productivity/efficiency)

Commercialise support for local medical research	Outsource public hospital integrated care operations to the private sector Create trading arm for selected public health services	Commercialise public payment scheme operations	
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**Enablers** (e.g., education, IT, and communication technology)

Attract students to medical-related studies/careers	Attract overseas clinicians to Australia		
Enable a health applications digital ecosystem for medical research, care providers, insurers, and consumers			

Source: Strategy& analysis

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# 1. Suppliers: Turning strong research into commercial success

Australia's medical research and papers have earned a solid reputation among the global medical community. The country punches well above its weight in terms of scientific and medical research output and impact. Australia ranks eighth in the world by volume of medical papers relative to its population size, and 12th for the excellence of its research.

Unfortunately, despite its obvious strength in this area, relatively few ideas translate into commercial success, for a number of reasons. First, Australia's geographic location means the country is somewhat isolated from other clinical trial centres across the globe with which it could potentially collaborate. Within Australia itself, there is a lack of critical mass and funding and, as a result, a limited supporting culture and a lack of needed infrastructure and capabilities for clinical trials.

Because of these difficulties, Australia's leading medical and pharma companies — large companies including Ansell, CSL, Mesoblast, ResMed, and Sirtex— currently spend the bulk of their R&D budget overseas. Although the Australian government proposed the creation of a \$20 billion Medical Research Future Fund in its 2014 budget, it abandoned the major source of the funding — a \$7 co-payment for GP consultations and an extra \$5 on Pharmaceutical Benefits Scheme prescriptions — due to fierce resistance from voters and the medical profession alike. As a result, it is likely that the Future Fund will be much smaller.

We believe that a possible alternative source of funding to build R&D investment in Australia is commercialising local public-sector medical research. The private sector would also play a part, encouraging local and foreign direct investment in Australian biotechnology and medical technology R&D through the development of a national private R&D facility.

We envisage this facility as a “one-stop shop” that would include private clinical trials with their own ethics committees, and a private, integrated preclinical section, along with toxicology. The facility would gather its funding from a range of sources, including government,

*Australia's leading medical and pharma companies currently spend the bulk of their R&D budget overseas.*

superannuation funds, and private investment. Finally, clinical trials could be run cost-effectively in Australia through the establishment of a publicly listed national biotechnology company, affiliated with similar firms in other countries.

It is difficult to estimate the exact financial contribution that building Australia's R&D capabilities would add to the country's GDP. However, our initial high-level estimates indicate that a figure around \$1 billion per annum could be possible. For example, support to commercialise medical research could generate as much as \$1 billion a year, if the revenue of Australia's two largest biotech companies, Cochlear and ResMed, are anything to go by.

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## ***2. Care providers: Technology, tourism, and overseas expansion***

In recent years, Australia's education sector has had enormous economic success by leveraging public-sector capacity to serve export markets. Education is now one of Australia's largest exports, contributing 4.5 percent of the country's GDP in 2013. We believe that there are opportunities for the healthcare sector to follow education's lead. In fact, we see three clear parallels between the way education has leveraged public-sector capacity and opportunities in Australia's healthcare industry.

### ***A. Distance and remote learning, and technology, telehealth, and telemedicine services***

Advances in technology have made distance and remote learning a viable and popular way to study. The number of distance or remote students enrolled at Australian universities has risen quickly in the last five years from 211,000 in 2009 to 302,000 in 2013. This has brought more students to universities without necessarily requiring the institutions to make further investment in physical facilities and infrastructure.

In the same way, Australia has been a successful adopter of technologies such as telemedicine and telehealth, and its capabilities in this area have grown rapidly. The country's private healthcare industry successfully provides telemedicine to Australia's remotest areas, such as the Northern Territory, where geographic isolation and sparse populations make accessing face-to-face medical care difficult.

In addition, Australia's major telecom, Telstra, has continued to invest in its telehealth services. The company already offers a number of these services and is set to partner with governments across jurisdictions. Telstra has also made acquisitions and partnered with domestic and overseas companies such as Medgate, Fred IT, HealthConnex, HealthEngine, and Verdi to build its telehealth capabilities.

## ***Case study: Increasing our healthcare trade with China***

Australian healthcare providers have a tremendous opportunity for revenue growth through trade with China. Australia's largest trading partner is also quickly becoming one of the world's biggest healthcare markets. This is fueled by a number of factors, including the growth of China's GDP, the rise of its middle class, and the increasing demand for better access to quality healthcare among its population. Like Australia, China has a rapidly ageing population — projections indicate about 480 million citizens older than 60 by 2050 — and it also faces similar challenges on the rise of chronic diseases such as diabetes.

There are other factors that make China an attractive destination for healthcare investment. The country offers low operating costs to business, and its IP protection laws, once very weak, are starting to improve. The Chinese government encourages innovation and R&D and is keen to provide better access to quality healthcare given its importance to the Chinese people.

The Chinese government is also supportive of foreign investment in hospitals. Public funding will be needed to raise the quality of care for the poorest hundreds of millions in the population, so private players are stepping in to fill the gap at the “top of the pyramid” for the 400 million affluent and middle-class citizens. Private health insurance is on the rise, and many now pay out of pocket, so “consumer-driven healthcare” is already a reality. Although many Chinese firms can access land through government relationships, they often lack the capability and credibility to run a successful hospital or clinic — and thousands of such facilities are needed to cater to the latent demand. The situation presents an opportunity for Australia to develop commercial trading arms for selected public hospitals in the Chinese market. These trading arms could then provide revenue to ensure that the hospitals continue to deliver a high standard of care to Australian citizens back home. In addition, there are broader opportunities in education, research, chronic disease management, primary care, elder care, and pharma life sciences.

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On top of having extensive experience in telemedicine, Australia is also home to a large number of foreign-trained doctors. Care providers could leverage these doctors' understanding of their home country's culture and their language skills to help deliver telemedicine and teleradiology to offshore destinations. Australia is uniquely positioned given its time zone to provide night reads for the United States, Europe, the Middle East, and Africa. In fact, this is happening in teleradiology, with Australia providing night reads for the U.S. and European Union markets.

However, a number of factors stand in the way of telemedicine becoming a viable source of export revenue at present. These include practitioner reimbursement and licensure laws, and concerns around legal liability, quality of care, and patient safety. There is, in addition, a limited pool of specialists for care providers to draw from.

Nevertheless, there are ways that these barriers could be overcome. For instance, Australia could lead the way by setting up free trade agreements with emerging markets, as well as by targeting governments to help facilitate regulatory change. In addition, healthcare professionals could undergo a process to receive international licensing and credentials.

### ***B. Australia's onshore foreign student market, and medical tourism***

In the last decade, there has been a surge in the number of overseas students who are travelling to Australia to get a tertiary education. In 2013, 26 percent of students studying in Australia's universities were fee-paying overseas students. Foreign students contributed \$15 billion to the Australian economy in 2014.<sup>8</sup>

In a similar way, Australia's neighbouring Asian countries are utilising their public facilities to serve foreigners — in their case, through medical tourism. Their well-trained health professionals, modern medical infrastructure, and lower wages attract people from wealthier countries who want less costly procedures. For instance, Thailand has long been a popular destination for Western patients seeking inexpensive dental and cosmetic procedures, and Singapore attracts patients seeking cancer treatment, cardiac surgery, and fertility treatment.

With its high standard of care and well-trained doctors, Australia could offer medical services to foreigners seeking high-quality care. Rather than competing for low-cost procedures in such areas as cosmetic surgery or dentistry, however, Australia is well placed to compete with countries like Singapore, India, Malaysia, and South Korea in higher-end treatments and procedures, including acute medical care, fertility treatment, oncology, and cardiology.

A strong medical tourism industry serviced by both public and private hospitals in Australia could help boost revenue and help fund health services for the Australian population.

However, healthcare tourism in Australia lags behind its competitors in many areas. Its visa application processes are much slower than those of competitors like India, and there are limited on-the-ground networks to facilitate the referral of overseas patients to potential clinicians. Australia also lacks appropriate marketing companies to promote services overseas, as well as companies that coordinate the delivery of the medical records of overseas patients. Unlike its Asian counterparts,

*With its high standard of care and well-trained doctors, Australia could offer medical services to foreigners seeking high-quality care.*

the Australian government does not offer any incentives to promote medical tourism. There is also a strong view in Australia against using public health services to follow commercial pursuits.

Still, there are a number of solutions that could be put in place to make Australian medical tourism a more feasible export. For instance, dedicated facilities could be set up, such as the Victorian Comprehensive Cancer Centre, which opened in 2015 and includes a private floor for insured patients and medical tourists. Australia could also follow the lead of countries like India, Thailand, Singapore, and South Korea, which provide a supportive framework for medical tourism, such as special visas, incentives, and tax breaks. Finally, Australia could set up specific avenues to promote and market medical tourism to the appropriate countries.

### ***C. Overseas campuses of renowned Australian universities, and Australian public hospitals' trading arms***

In addition to opening their doors to visiting international students, Australian universities have set up a number of campuses overseas, where students complete their first one to two years in their home countries, and then come to Australia to complete their degrees. Australian tertiary institutions such as Monash University and Flinders University have been able to leverage their strong reputations abroad and have opened campuses across multiple continents.

A number of Australian private hospital operators are having similar success by branching out beyond their own borders to grow their revenue. For instance, in 2014, the Australian healthcare provider Healthscope received 10 percent of its revenue from the 43 pathology labs it owns in New Zealand and across Asia. Meanwhile, Australia's largest private hospital provider, Ramsay Health Care, has been expanding international operations since 2007 through acquisitions and joint ventures. From 2011 to 2014, 28 percent of the company's revenue came from foreign markets.

Australian public hospitals could learn from the experience of their private-sector counterparts — but also from overseas public hospitals, which have managed to commercialise their services nationally and offshore to create additional revenue. In the U.K., the NHS has created the Healthcare Evaluation Data (HED), an online solution that delivers information for healthcare organisations. The HED is sold to more than 45 hospitals around the U.K. and in the Middle East for an annual licence fee of about \$35,000 each year.



Another way that not-for-profit hospitals can commercialise at least part of their services is by joining forces with other entities that could provide financial backing, as U.S. not-for-profit Johns Hopkins Hospital did through its joint venture with energy company Saudi Aramco. The hospital now receives considerable revenue from providing healthcare to 350,000 Saudi Aramco employees and their families.

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### ***Care providers: High-level estimate of revenue***

Estimating with much accuracy the sort of revenue that these initiatives could generate for Australia's GDP is difficult at this stage; however, a very rough estimate reveals that the "size of the prize" makes them at least worth considering.

We estimate that by 2020, Australia could raise annual revenue of as much

as \$3 billion through medical tourism, and close to \$1.9 billion for delivering telemedicine and teleradiology overseas. In addition, if public hospitals setting up facilities in China have the sort of success that private providers like Healthscope and Ramsay Health Care have enjoyed, they could generate about \$1 billion or more in revenue each year.

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## ***3. Insurers: Commercialising public payment schemes***

As Australians enter retirement and have less income to draw on, many let go of their private health insurance and rely solely on the public healthcare system. Those who qualify may also receive discounts on medical care and medication with the Commonwealth Seniors Health Card.

To help pay the additional costs of providing care for older Australians, the government should consider using tax and other policy levers. For instance, it could consider introducing health-related savings accounts (see *“Case study: How Singapore’s health savings accounts are creating a lower-cost healthcare system,”* next page). However, Australians may have some resistance to putting more of their money in an account that they cannot access until a preservation age or a trigger point such as retirement. One solution could be to ensure that the preservation rules are designed around the state of an individual’s health rather than a specified age, so that the account holder can tap into the money when it’s most needed.

Another possibility that the Australian government should consider is social benefit bonds (SBBs) — financial instruments that pay a return based on the achievement of agreed social outcomes, which could be used to promote improvements in healthcare. Savings generated by these bonds are used to repay an investor’s principal and offer additional reward payments. An SBB called Newpin has already had a trial run in the Australian state of New South Wales in 2013 with promising results. Valued at \$7 million, Newpin funded the expansion of a programme to help children in out-of-home care. In its first year, it delivered a 7.5 percent return. Despite this positive example, SBBs are a relatively new form of investment, so it may take time and extra support from the government for them to gain traction with the general public.

## ***Case study: How Singapore's health savings accounts are creating a lower-cost healthcare system***

Singapore has lower healthcare costs than most other developed countries, but still has good health outcomes. An important component of this favorable scenario is the country's use of health saving accounts, such as Medisave.

The Singapore government introduced Medisave in 1984. The scheme was part of a wider reform package for the healthcare system, designed to encourage the population to save for the future, as well as to constrain healthcare expenditure by discouraging overconsumption. Medisave also uses competition among providers to further contain costs.

Medisave is funded by compulsory monthly contributions from both

employers and employees. Contributions start at 7 percent of monthly salary for those ages 35 or younger, and increase as employees age to a maximum contribution of 9.5 percent for those over 60. The contributions are not taxed, nor do they gain interest, and they are capped to avoid tax evasion. Preretirement withdrawals are capped as well, to ensure that funds will be available for a person's lifetime. Citizens can also bequeath the balance of their Medisave account to family members.

Medisave is used to cover hospital and hospice charges and expensive outpatient services for chronically ill patients, such as chemotherapy and renal dialysis. The funds may also cover private health insurance premiums.

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# ***The road ahead: The need for strong policy***

The solutions in this report suggest a positive way forward for the Australian healthcare sector. We are optimistic that despite future challenges, Australia will be able to continue to enjoy a strong healthcare system that contributes to the strength of its economy. However, changes will need to be made. Already, a review of the Medicare Benefits Schedule suggests that as much as a third of treatments that can be partially or fully funded by Medicare are unnecessary or even harmful,<sup>9</sup> indicating that a major overhaul is needed to contain costs.

The Australian government will need to continue to drive such reviews, and then create policy decisions based on the resulting evidence that will cut wasteful spending and direct funds into more productive avenues. It should also consider formulating new policy to facilitate the export of both private and public healthcare, and to make it easier for the sector to attract foreign investment. With this leadership and policy, Australians can look forward to having a high-quality healthcare system that will continue to be a major contributor to the country's economy well into the 21st century.

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