

ASIA HEALTH ECOSYSTEM SERIES

CAN BANKS AND HEALTH PLAYERS COLLABORATE TO CREATE VALUE?



The growth story of APAC's healthcare is well-known. Populations are aging in a 'silver tsunami' The burdens of both infectious and non-communicable diseases are rising. Some of the world's most ambitious universal health coverage (UHC) schemes have been launched. As a result, the industry in the region has been and expected to continue to deliver high growth.

However, many private sector incumbents are challenged to scale, to drive operational improvements and to sustain profitability and returns on capital. Inefficiency is driving eye-watering levels of medical inflation in the region of between 5 and 10 percent a year. At the same time, supply-demand gaps remain acute in growth markets – meaning not enough patients can opt to receive better – or any kind of – care at times when they would be most willing to pay for it, such as in medical emergencies or terminal illness.

How can we disrupt the status quo and help unlock new value in the sector? How can players support and accelerate growth?

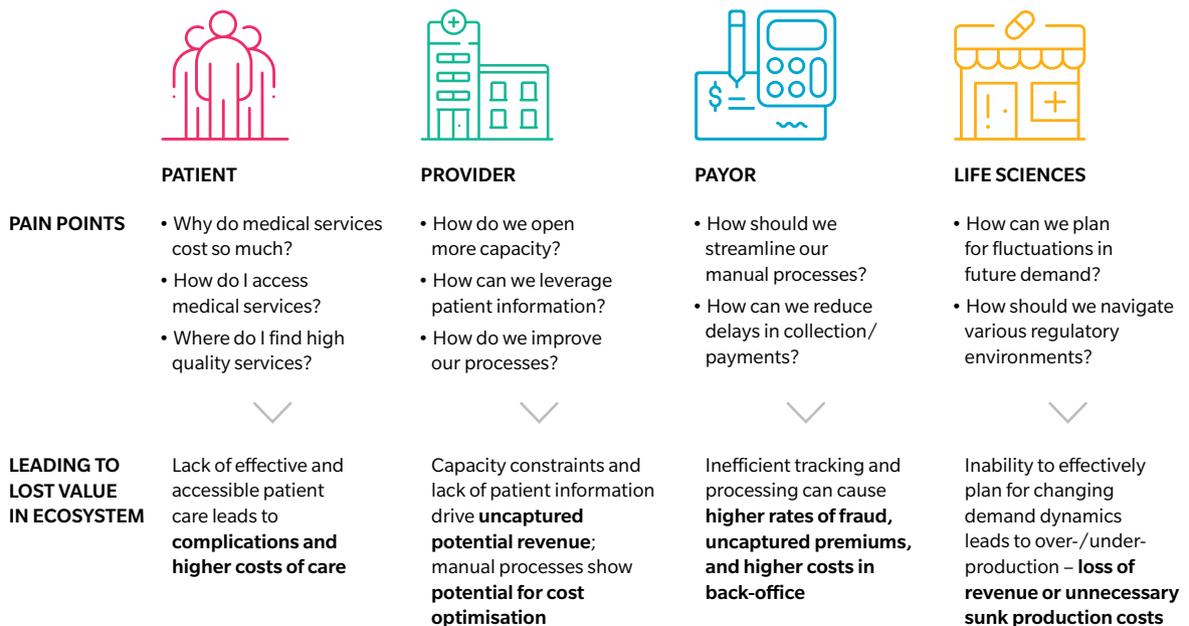
We explore the above questions and specifically dive into how players outside of healthcare, financial services & banks, can be part of the solution to some of the challenges by helping integrate players in the ecosystem alongside innovative financing.

CHALLENGES DRIVING INDUSTRY INEFFICIENCIES

Some of the challenges in healthcare are structural. First, unlike other industries that can be characterised by a sequential value chain, healthcare flows are dependent on interactions and balancing interests between the different subsectors (e.g., hospitals, insurers, manufacturers, etc). Specifically, in healthcare, the buyer, the decision maker, the recipient and the payor of healthcare are usually all different parties, which already uniquely requires players in the industry to operate more as an ecosystem or network, rather than a series of buyers and sellers. Yet, despite these interdependencies, there remains high levels of disintermediation between parties, with limited interactions beyond simple exchange of products, services, paper and payment flows. Second, the industry remains highly fragmented. Indonesia, for example, has a population of 230 million, but no private hospital chain or pharmaceutical company has a share of its market above 10 percent.

At a macro level, these challenges are driving pain points across subsectors (see Exhibit 1) and massive inefficiency across the industry, driven by information asymmetry, lack of alignment between subsectors and limited adoption of technology that would enable system modernisation.

Exhibit 1 “Pain points and lost value”: Examples across healthcare ecosystem players

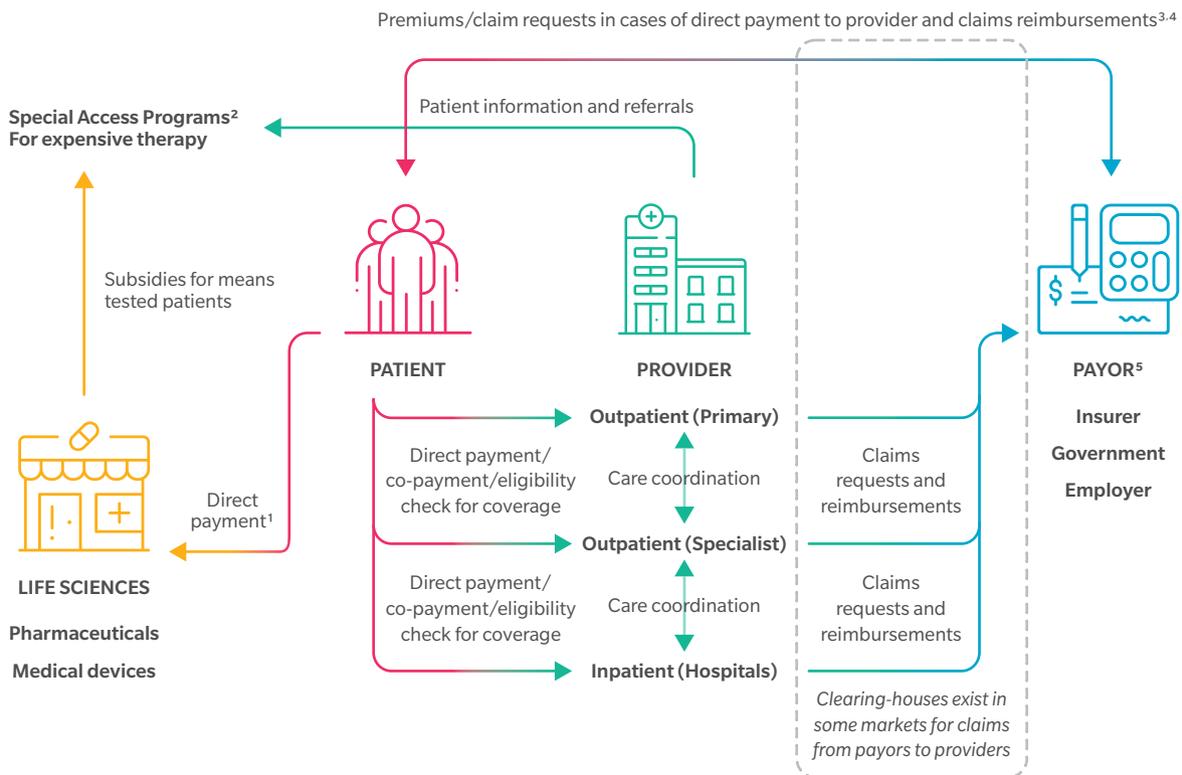


At the company level, pain points experienced by companies are symptoms of broader underlying financing, technology or operational challenges. For example:

- **Long cash cycles and higher working capital burdens** due to complex, highly manual finance functions and payment flows (Exhibit 2) that have been designed and continue to be operated in-house or by fee-for-volume intermediaries
- **Patient affordability challenges**, especially with acute care due to insufficient financial planning/ safety nets as well as inefficient care delivery that remains nearly all face-to-face regardless of patient condition
- **Lack of transparency and predictability of treatment costs** driven by weak or poor information, systems and controls especially between providers and payors
- **High OPEX and capex** driven by inefficient, decentralised and opaque domestic and international supply chains and procurement processes for pharma and devices

As a result, companies are stuck: high levels of working capital imply constraints on capital expenditure and leave insufficient resources to invest in systems, upgrade equipment, and expand services to new customers and new types of treatment. Yet these improvements are required to increase efficiency, raise profits, and make the sector more sustainable. Without a different approach, large parts of private healthcare in Asia will, in the foreseeable future, remain subscale, costly and, sadly, catering primarily to the affluent.

Exhibit 2 “Fragmentation and complexity”: Numerous stakeholders and complex financial flows



1. Pharmacy Benefit Managers (PBMs) act as “middle-men” in some markets.
 2. Included in provider claims in some markets.
 3. Claims can be made directly made by patients.
 4. Third Party Administrators (TPA) function in some markets as the intermediary.
 5. In some markets, employers have self-insured plans instead of contracting with a commercial health plan.

ECOSYSTEM SOLUTIONS WILL CREATE VALUE

Breaking this cycle requires ecosystem solutions: That is, a combination of financing, technology, and operational capabilities needs to be applied to different players across subsectors. This needs to be done in a way that connects players - enabling transparency to reduce risks and improve quality of decision making as well as increasing pace of transactions.

Banks can be well placed to drive or participate in ecosystem solutions, bringing crucial financing capabilities, digital/technology experience and capabilities to partner for operational expertise. Ecosystem solutions will:

Solve broader 'beyond banking' problems

New solutions that delight customers will combine a financing product with operational services and new technology. For example, hospital revenue-cycle management could be paired with cash management products and services to improve working capital efficiency and increase self-funding to strengthen clinical centres of excellence for a hospital.

Enabled through technology and partnerships

Solutions offered through collaborations with ecosystem partners (e.g., banks, fintech, operational service providers) and technology will enable best-of-breed offering, faster capabilities build up, and enhanced client engagement and collaboration. For example, banks could bring real time payments and virtual accounts whilst partners could bring health claims processing and reconciliation engines to improve working capital cycles for providers and reduce fraud levels for insurers, whilst consumers enjoy integrated digital solutions.

Brings different organisational capabilities, rather than discreet products/entities

In an ecosystem world, organisations will eventually need to venture beyond traditional P&L boundaries. For banks, this could mean joint offerings within the bank, such as a retail payment solution combined with wholesale payment reconciliation. Or it could use non-traditional channels, for example distributing consumer finance via a hospital's app and digital platforms to increase access to new clients at lower cost of acquisition.

THE OPPORTUNITY FOR BANKS

This new approach will require a change in mindset that will not be easy. However, some banks have already embarked on this approach. In the United States, US Bank has formed an alliance with Optum360 to improve the processing of manual and electronic receivables and support the collection of patient payments. They plan soon to launch services in patient financing and full revenue-cycle outsourcing. JP Morgan recently bought InstaMed, a healthcare payment solution specialist, for \$500 million. With this purchase, the bank acquired a customer base of payors, patients, and providers and now has the opportunity to benefit from the network effect these bring.

In Thailand, Siam Commercial Bank has announced partnerships with Samitivej Hospitals on a number of innovation fronts including a digital hospital. SCB is providing capabilities from its fintech investment unit Digital Ventures, including credit cards and wealth management solutions. High net worth clients of the SCB Wealth Service will be offered new benefits such as check-ups and access to digital healthcare services.

This is a prime opportunity. Successful ecosystem solutions will enable players to redefine the game on how to compete - offering differentiated propositions, deepening relationships with clients and creating strategic control by embedding themselves into the ecosystem. In the long term, a focus on clients and how their business and industry evolves commercially will enable banks to stay relevant and avoid commoditisation of basic banking services..

Our client experiences suggest that getting ecosystem solutions right can bring attractive financial outcomes for banks:

- Up to **20-30% lower customer acquisition cost** in the sector
- **30-40% higher deposit volumes** driven by capturing more of the transaction flows and volumes in the ecosystem
- **15-20% uplift in Return on RWA** driven by greater share of fee based business, better data for credit underwriting, and lower customer acquisition and servicing costs

ARE YOU READY TO **EMBARK** ON A HEALTH ECOSYSTEM PLATFORM JOURNEY?

However, not every bank is in a position to undertake this endeavor, and not every health system will be open to such an approach. Therefore, banks and healthcare players looking to undertake this journey need to assess how ready they are internally – and how ready the external market is. (See Exhibit 3.)

Exhibit 3 Readiness to build a health ecosystem proposition

A. Market conditions



Presence of potential digital technology partners



Level of syndication within health ecosystem subsectors



“Digital readiness” – Sufficient technology baseline within the health ecosystem



Absence of existing large dominant player/platform better positioned to build off an ecosystem

B. Internal organisational factors



Collaboration modes across product, segments and functions



Agile delivery to allow rapid sprint releases



Technology and 3rd partnership capabilities to enrich proposition



Leverage to entry, e.g. existing relationships in the healthcare sector



Data and analytics capabilities

Banks need analyse what a market needs, what they can contribute themselves and what tasks they will need partners for. See below for a checklist for banks (Exhibit 4) considering ecosystem solutions for healthcare.

Exhibit 4 Checklist for banks to get started on ecosystem solutions

-  **Map interactions, flows and size the ecosystem** to understand the addressable market – in particular key players, specific pain points, and root causes
-  **Determine the potentials for a platform play** compared with traditional single point solutions
-  Look at existing customer bases to **identify where opportunities lie in the ecosystem** and which customers could cooperate in proof of concept
-  **Engage cross-functional experts in the industry and the market** for ideation or prototyping strawman concepts
-  **Identify potential like-minded partners** in areas such as technology and operational capabilities to build new ecosystem solutions
-  **Assess internal organizational readiness** and prepare for new, agile ways of working to enable development
-  **Identify required resources and metrics** (e.g., ROI) to measure progress

NEW POSSIBILITIES FROM A NEW APPROACH

There is great potential for an alchemy of financing, technology, and operational capabilities to unlock value in the healthcare sector as the combination of the three will address many of the underlying causes of the sector’s pain points. At the same time, it will let new the architects of such ecosystem solutions such as banks to raise the game and compete in a completely different way.

Whilst no innovation endeavour is easy, this ecosystem approach to solving the challenges in healthcare will open possibilities for disruption in an industry that so badly needs it. For banks that are persistent, the sector is full of new opportunities.

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

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