

Private Health Sector in Portugal

Executive Summary

June 2017



Augusto Mateus & Associados
Sociedade de Consultores, Lda



Editorial Information

Title

Private Health Sector in Portugal

Promoter

Millennium bcp

Authorship

Consultancy Augusto Mateus & Associates,
as part of the collaboration agreement established with Millennium bcp

Team

Augusto Mateus
Eduarda Ramalho
Helder Oliveira
Hermano Rodrigues
Rui Ferreira

Edition

June 2017

This Executive Summary was produced by APHP based upon a Sectorial Report produced by Augusto Mateus & Associados for Millennium bcp, that duly authorized its use for the current purpose.

The private health sector is very relevant within the national entrepreneurial market mainly with regard to inpatient care activities (hospitals) and to specialized ambulatory care activities.

In light of the activities considered to be part of the private healthcare sector (see delimitation attached), it is estimated that the entirety of these activities involve approximately **79 thousand companies** in Portugal, responsible for more than **130 thousand jobs** and **5.7 billion euros annual revenue**. **Gross value added is around 2.7 billion euros**, gross operating surplus around 1.5 billion euros, gross fixed capital formation rounds 273 million euros and net result totals 919 million euros.

Outpatient activities assume greater importance in all variables (48% of turnover, 50% of gross value added, 57% of gross operating surplus, 58% of gross fixed capital formation and 59% of net result), with the exception of companies and staff, due to the high relevance of "nursing activities" in other health activities, where microenterprises thrive.

Looking at each of the more specific activities of the private healthcare sector, "**specialized medical activities, in ambulatory care**" stands out in regard to several indicators. "**Healthcare facilities with inpatient service**" corresponds to the sub-sector with greater significance in terms of turnover.

It should be mentioned that "specialized medical activities" accounts for 35.7% of the gross fixed capital formation of the private healthcare sector, 31% of the net result, 30.5% of the gross operating surplus and 24.5% of gross value added.

Close to this last figure is "Healthcare facilities with inpatient service", which represents 20.4% of the gross value added of the sector, leading it in terms of turnover, with a share of 26.1%.

Graph 6. Relevance of the three sub-sectorial groups of the Portuguese private health sector | 2014

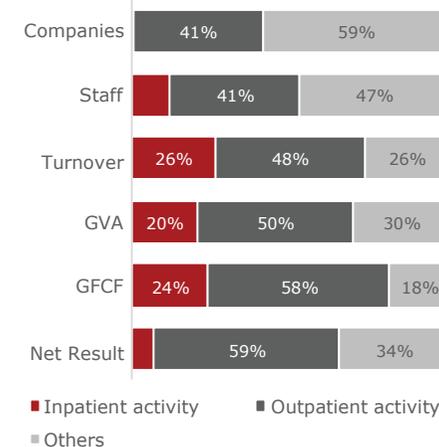


Table 3. Main variables of characterization of the private health sector | 2014

	Nº of Companies	Staff	Turnover	GVA	GOS	GFCF	Net Result
	nº	nº	millions €	millions €	millions €	millions €	millions €
Inpatient care	169	15 947	1 486.3	541.2	155.8	65.1	63.2
Outpatient care	32 444	54 236	2 705.4	1 318.5	832.4	157.7	540.4
<i>General practice medical activities. in ambulatory care</i>	8 929	13 110	625.5	316.0	221.1	22.6	162.7
<i>Specialized medical activities. in ambulatory care</i>	15 030	23 633	1 324.3	651.0	443.2	97.6	284.9
<i>Dentist and orthodontist activities</i>	8 485	17 493	755.6	351.6	168.0	37.5	92.8
Other medical care	46 253	62 266	1 497.8	793.0	463.7	50.3	315.4
<i>Clinical Laboratories</i>	381	4 978	350.7	152.9	60.1	1.1	39.4
<i>Nursing activities</i>	20 082	20 552	164.8	119.3	106.6	1.2	104.3
<i>Collection centres and organ banks</i>	12	80	5.0	1.6	-0.5	0.2	-0.7
<i>Other activities of human health. unspecified.</i>	25 778	36 656	977.3	519.3	297.5	47.9	172.3
Private health sector	78 866	132 449	5 689.5	2 652.8	1 451.9	273.1	919.0
Weight in the total Economy	7.0%	3.8%	1.8%	3.5%	4.6%	2.1%	10.1%

Note: GVA – Gross Value Added. GOS – Gross Operating Surplus. GFCF – Gross Fixed Capital Formation.

Source: Consultancy Augusto Mateus & Associates based on data from INE's Integrated Business Accounts System

Analysis of the structure of the private health sector allows identification of the existence of major players

Considering the activities that make up the private health sector, it is possible to identify major players in the area of complementary diagnostics (integrated in CAE 86220) and clinical analysis, an area in which mergers took place and entrepreneurial groups of significant dimension emerged.

However, **it is in the domain of hospital care that the rise and affirmation of private entrepreneurial groups have gained greater prominence.** They take on an important supplementary or complementary role to the hospitals of the public sector, making use of the existing financing schemes which include health subsystems and private insurance and, of course, agreements and conventions with the NHS, as well as opportunities associated with PPPs.

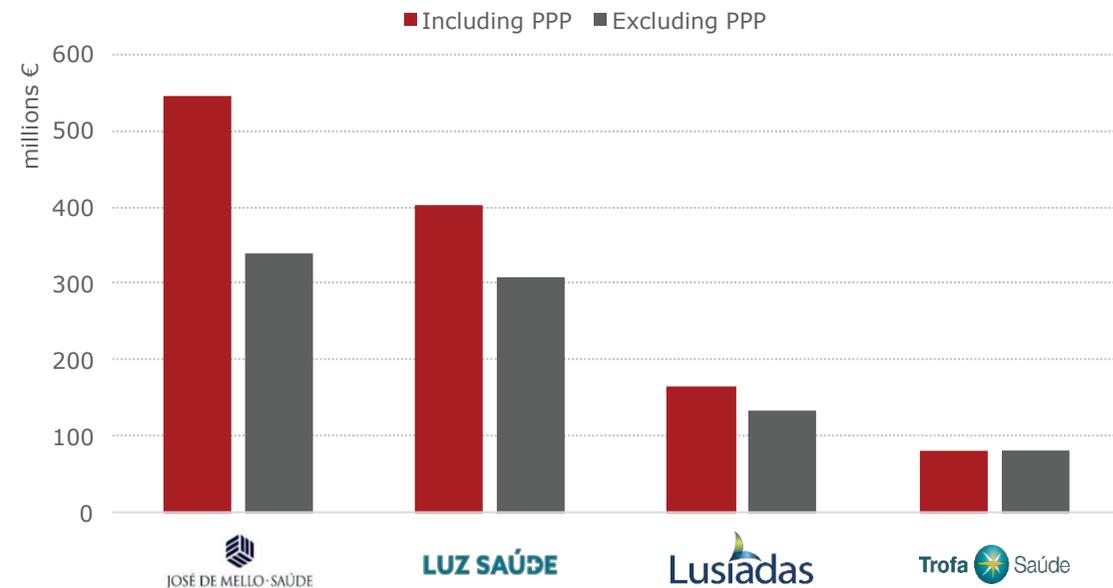
In this context, **the main private groups working in hospital care have been investing not only in equipment and human resources, but also in the quality and comfort of their facilities and in customer-focused care,** always ensuring that the customer's level of satisfaction exceeds the satisfaction arising from a service in a public establishment.

Furthermore, these groups **have been extending their activity spectrum, namely through the creation of niche establishments (e.g. senior residences), through the creation of outpatient facilities alongside inpatient facilities** (thus, not only increasing the geographical scope of activity, but also fostering an intra-group "referral network"), **in addition to the creation or acquisition of facilities focused on complementary diagnostics.**

Mergers and acquisitions have also taken place across these private groups.

Within this framework, four entrepreneurial groups stand out: the José de Mello Saúde group, the Luz Saúde group, the Lusíadas group and the Trofa Saúde group. **The José de Mello Saúde group has the lead over the Luz Saúde group, although by a small margin,** especially if the activity of hospitals under PPP is withdrawn from the analysis. The other two groups emerge at a considerable distance from the first two.

Graph 9. Dimension of the largest economic groups in the private health sector according to turnover | 2014



Source: Consultancy Augusto Mateus & Associates based on data from INE's Integrated Business Accounts System, from Reports and Accounts and from business microdata

The relevance of large entrepreneurial groups in the private health sector in Portugal is high, especially regarding hospital activity

Excluding the activity of hospitals under PPP, **the four largest groups of the private health sector in Portugal generated a turnover corresponding to about 15% of the total private health sector, 25% of inpatient and outpatient medical practice activities and 58% of inpatient medical practice activities.**

In terms of employment (regarding this variable, the available data is scarcer, which may lead to underestimation of the size of the sector), the four entrepreneurial groups under analysis are thought to be responsible for 4%, 10% and 38%, respectively, of employment in the entire private health sector, inpatient and outpatient medical practice activities and inpatient medical practice activities, without considering PPPs.

With the PPPs incorporated in the analysis, the results obtained are manifestly greater. Thus, and with reference to the inpatient medical practice activities, we reach 80% regarding turnover and 66% with regard to employment, figures that are very close to those publicized in the media.

In any case, given the activities actually carried out by these entrepreneurial groups, which go beyond outpatient clinical practice, those ratios are not the most accurate, even though most of the activity of the groups under analysis is associated to inpatient health facilities.

The aforementioned ratios are based on a turnover of the four groups in 2014 of approximately 1.192 billion euros, if PPPs are included, and 862 million euros if PPPs are excluded.

In 2015, the turnover of the four entrepreneurial groups under analysis amounted to around 1.270 billion euros, including PPPs, and 926 million euros excluding PPPs.

Graph 10. Relevance of the largest economic groups in inpatient care activities and in the private health sector | 2014



Source: Consultancy Augusto Mateus & Associates based on data from INE's Integrated Business Accounts System. from Reports and Accounts and from business microdata

Business models and critical success factors for the private health sector in Portugal

Box 3. New Business Models and Critical Success Factors

In the past, the theme of sustainability was analysed mainly in a budgetary or financial perspective, resulting in the adoption of measures directly aimed at reducing costs.

For some years now, **awareness of the relevance of the results / impacts in patients generated by the measures taken** has been increasing, and that effective sustainability is based on maximizing patient satisfaction and providing a personalized service, which will also save resources. This revisiting of the concept of sustainability is especially pertinent when trying to envision the future of the private health sector and to delineate business models that converge towards the **competitiveness of health systems**.

What has appeared to be especially suitable for health policies is the **shift from the volume-based healthcare paradigm to value-based healthcare**, a change that, from an international point of view, is already underway.

The value-based healthcare approach aims to **maximize the best results at the lowest cost / price**. To this end, it advocates a patient-centred, rather than supply-oriented, healthcare system, which means moving from a focus on volume of services provided to outcomes achieved by the patient. This change implies replacing the current framework of fragmented systems in which each type of provider offers a wide range of services by a system in which services for specific medical conditions are concentrated in specialized facilities.

The feasibility of this approach generally rests on ensuring the compliance of six requirements: (i) the creation of Integrated Practice Units (IPU); (ii) the quantification of results and costs for each patient; (iii) the implementation of an episode-based payment system for a given period; (iv) the integration of care services to avoid duplication of care and to optimize the type of care provided at each location; (v) the expansion of geographic reach so as to increase care coverage; (vi) the design and implementation of a technology platform to provide technological support.

In the case of Portugal, the application of the value-based healthcare approach, respecting the particularities of the current health system, would imply: making value for the patient the central goal of all reforms; creating integrated practice units; certification involving multidisciplinary teams; primary care and prevention activities being organized by patient segments; eliminating the separation between levels of care; creating a mandate for the measurement and dissemination of results by clinical condition; publishing adjusted results for the risk of the population treated in each case; expanding the implementation of minimum activity volume; paying per set of health services for each clinical problem; consolidation of providers and services; the Ministry of Health and the ARS (Regional Health Authority) acting as organizations focused on health management; co-opting health professionals to the goal of creating value for the patient and convincing them to participate in the joint responsibility for success.

Consequently, four business models emerge:

- **Lean innovation:** a model that combines best practices in production and efficient supply networks in other sectors with the expertise in mergers and acquisitions for rapid growth, challenging the incumbents' cost structure, productivity and operational models;
- **Value innovation:** a model focused on improving both patient outcomes and health system efficiency through the integration of drugs, devices and services into clinical processes;
- **Patient-centred innovation:** a model in which companies place patient value and outcomes at the centre of their strategy, leveraging analytical capacity for the development of new therapies and complementary services;
- **New digital methods in health:** a model through which leaders from other sectors (e.g. consumer technologies) can change the location and form of patients receiving treatment based on digital innovation.

In the wake of the possible business models in this new health ecosystem, the **main critical success factors** are identified: orientation towards innovation, not only regarding the care which is provided, but also in the way it is provided; the focus on the patient, respecting their individuality and their "sovereignty"; the emphasis on value, viewed as gain or outcome for the health of the individual; the commitment of all professionals to the maximization of value per patient; the rigorous quantification of the results of each patient and their comparison with the associated costs; the valuation of digital technologies.

Challenges for the private health sector in Portugal

Understanding the main challenges faced by private health facilities in Portugal is, firstly, to consider the **factors that dictate competition among private operators**, such as reputation, clinical excellence, technology, price and customer satisfaction. The latter includes not only the intrinsic quality of the services provided, but also the care, friendliness and personalization of the service, dedication shown by health professionals, design, comfort and layout of the facilities, among others. In fact, **patient satisfaction can and should be understood in the context of the value-based healthcare approach, thus extending to health outcomes / gains.**

The **actual advancement of value-based healthcare in the national health system** can also be a great opportunity, provided that it is an integrated model with the NHS.

Furthermore, there are other opportunities and challenges that the private component of healthcare provision in Portugal must consider, particularly with regard **to private insurance plans, which, judging by what is happening internationally, will have an ample room for development in the country**, in line, moreover, with the evident growing adoption not only of health insurance as of health insurance plans.

Betting on care not available (totally or partially) in the public health system is, of course, also an opportunity to take into consideration, emphasizing here long-term care, oral health care, dialysis, among others. Connecting to **other activities with which a synergistic relationship can be established for the well-being of the patient** will also be a path to consider, such as, for example, the connection with health and wellness tourism or with sports.

But in addition to the complementary role vis-à-vis the public system, the private sector must also be aware of the variables that may influence its supplementary role. In both cases **everything that may determine changes in the sources of financing which connects the public system to the private system should be taken into account**, including changes in the scope of agreements and conventions between the NHS and private health facilities or even within the public health subsystems.

With due caution, the opportunity to **transpose the European Directive on cross-border healthcare into national legislation may be taken into account**. In this case, the Portuguese private health facilities will then be able to receive citizens of the European Union, and offer quality care at competitive prices, especially when compared with the main European references in health care.

In a more or less transversal way, **the private health system must enable itself to provide more comprehensive and effective responses to the challenges posed by the ageing population, by the increase of chronic diseases and by the fast pace of innovation in health and digital sciences.**

From the digital point of view, there is a huge potential for its implementation in health, very focused on **remote care and monitoring, and also for the instant integration of relevant information about each patient**, streamlining procedures and providing greater alignment among the different health professionals involved in patient follow-up, contributing to higher levels of efficiency and overall quality of services provided.

Finally, if the Government, in accordance with its Program, clarifies the functions of the State as shareholder, financier, regulator and provider within the NHS, ending with the ambiguities resulting from the overlapping of various functions, and if **what emerges is a more Bismarckian than Beveridgian health system**, this could also be a great opportunity for the private sector in Portugal.