

# A revolution in healthcare

## Medicine meets the marketplace

Fred Hansen

Are we seeing a repeat of what happened to the media industry in healthcare? A wave of media-literate consumers, using a host of new Internet tools, powered a dismantling of the big media monopoly on public opinion. Healthcare could be next.

With competition nearly absent and with unchecked increases in demand over the last two decades, health markets in industrialised countries are undergoing intense change at tsunami-like speed, responding to levels of health expenditure that are growing twice as fast as the economy at large.

As both the quality of state-run health services and doctors' reimbursement for such services have declined, customers seem prepared to spend more cash for their own healthcare, taking control over expenditures to boot. The Canadian government, for example, spent US\$87 billion on healthcare last year, but Canadian consumers added US\$38 billion out of their own pockets.

Medical progress is not primarily to blame for exploding healthcare costs, as most such progress is paid for, by default, by the dominant third-party purchasers in healthcare such as governments, employers and insurers. It is telling that, before the introduction of Medicare in the 1960s, overall healthcare spending in the United States was only five per cent of the GDP. It now stands at 16 per cent and is projected to skyrocket to 25 per cent by 2030. The late Milton Friedman argued

that healthcare in all Western countries is still an anomaly, given that it has always been protected against otherwise pervasive and successful market forces.

Indeed, market dominance by governments and third parties in Western countries is so great that there is scarce competition in healthcare over prices and quality. Private insurers are simply following the path of state-run healthcare, stifling entrepreneurship and innovation. The situation is already precarious given that attempts to control costs over the last decades have been largely unsuccessful.

This year, for the first time ever, the imminent meltdown of US Medicare has been suggested. The main reason for this is that all the reforms so far undertaken have addressed only the demand side of the market. The strange thing here is that buyers are telling sellers/providers how to practice medicine. We are talking about practice guidelines, preferred provider organisations (PPOs), managed care, health maintenance organisations (HMOs) and, more recently, health savings accounts (HSAs). Their effects are limited as long as doctors are not free to re-bundle and re-price health services and compete for customers.

In the US, for example, state regulations do not allow no-frills basic health insurance. Instead, they require insurance to cover anything from genetic tests and chiropractics, to acupuncture, marriage counselling or artificial insemination. Furthermore, insurers have to stick to community rating and guaranteed issues, which means that everyone has to be accepted and pays the same premium. There is, therefore, no possibility

for proper risk-management. The result is unaffordable private insurance, which in turn has prompted more Americans to opt out of health insurance altogether. There is good evidence that, over the last decade, the steepest increase among uninsured Americans has occurred in the bracket of families well above the poverty level. People just seem to think that they don't get their money's worth with the available insurance packages.

Increasingly, waiting for doctors has become the prevailing form of rationing in the West: mild in the US, moderate in Australia and severe in Canada and the UK. This, in turn, has created millions of frustrated customers who have begun to look elsewhere. The Internet and cheap airfares have greatly increased consumers' opportunities and choices by creating new consumer-driven markets. Cosmetic surgery, retail walk-in clinics, boutique medicine, Internet pharmacies and international medical tourism are only some examples. These areas, where the state and other third-party agencies are absent, are bristling with innovation and entrepreneurship: on a global scale, nurses and doctors are busy re-bundling and repackaging their services at competitive (and often lower) prices. Over the last decade, free competition has brought down the prices in cosmetic surgery by up to 30 per cent. Furthermore, a growing number of high-quality healthcare facilities in developing countries are catering for so-called medical tourists from industrialised countries, among them many uninsured Americans. Services abroad are, on average, 80 per cent cheaper according to the

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founders of PlanetHospital. Their data show that heart surgery which costs more than \$50,000 in the United States can be purchased for \$20,000 in Singapore, for \$12,000 in Thailand and between \$3,000 and \$10,000 in India. Though one may have doubts about the quality and safety of such a heavily discounted heart procedure, the success rate of coronary bypass surgery in India is reported to be 98.7 per cent as against 97.5 per cent in the US. Already, people can receive most major or complex procedures abroad. The competition is on, and most hospitals catering for the international market have either passed Western accreditation standards or are attempting to do so.

According to McKinsey & Company, India's health industry, one of the most promising in the field, is expected to grow from its present size of just US \$25 billion to a whopping \$190 billion in less than two decades. Many observers of the global healthcare industry are expecting that, in the coming decade, the increasing pressure on the supply of healthcare will set off a tsunami of health consumerism of sorts. Although up from 500,000 in 2006 to 750,000 in 2007, the number of Americans traveling abroad for healthcare is tipped to increase to 6 million by 2010.

There are plenty of signs of emerging global market responses to the Western supply crisis. The market for medical tourism was worth \$60 billion in 2006 and is rapidly growing. Again, according to McKinsey & Company, it could rise to \$100 billion by 2012. Big insurers are already adding global low-cost providers to their health plan networks. Blue Shield of California, for instance, allows enrollees of its health plan to have access to cheaper physicians across the Mexican border. Blue Cross of South Carolina allows treatment at the Bumrungrad International Hospital in Thailand, which treated 400,000 foreigners in the last year, including 80,000 Americans. Furthermore, India and China are already major suppliers of low-cost drugs and drug ingredients to US consumers, as the recent scandal over poisoned or toxic imports has revealed. India alone produces 350 varieties of antidepressants, heart medicines, antibiotics and other drugs purchased by Americans. Last year, China sold pharmaceuticals worth \$670 million on the US market. The downside is that the risks to human health are also growing quickly and the US Food and Drug Administration is struggling to catch up, having conducted roughly 200 inspections of plants in China and India over the last seven years.

But there are even more instances of consumer-driven changes pushing for supply side reforms to health markets:

- Growing numbers of consumers are not willing to put up with the rationing-by-waiting for a doctor anymore and are paying out-of-pocket to jump the queue in industrialised countries. For instance, in Australia, patients are paying up to \$600 for private treatment to avoid queues at crowded public hospital emergency departments. At Sydney Adventist Hospital, which has the largest private emergency section in NSW, doctors see 21,000 such patients per year. Australian dental tours to Thailand are already very popular.
- Web-based online patient networks and mailing lists are becoming an increasingly powerful force. One of the biggest is the US-based Association of Cancer Online Resources (ACOR) with 159 online cancer groups. Increasing numbers of people with health problems are looking for help on the Internet, as 5.4 million Americans purchased drugs from other countries over the Internet last year.

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- Another market response to hospital waiting lists is Internet-based services for medical expertise framed as a second opinion. Once a full patient record has been submitted, for a fee of \$450 Connected Health grants access to 4,000 medical specialists. This is probably good value for the money. A 2003 review by the *British Medical Journal* showed that working diagnoses changed in only five per cent of cases, but that, in 90 per cent of cases, new treatment alternatives were developed.
- Triggered by the 2003 US-wide introduction of new tax-free health savings accounts (HSAs), about 1,000 banks entered the healthcare market by offering health coverage and developing new consumer models: US uptake of HSAs has surged from 1 million in 2005 to 3.5 million in 2006 and is expected to reach 10 million by 2008. With plenty of cash for health purchases, HSAs are fuelling the global market for medical tourism. Big US health insurers, such as United Health and Blue Cross/Blue Shield, have gained bank charters to get into the HSA market.
- In the face of an expected primary care physicians shortage of 200,000 over the coming decade, US retailers are responding with nurse-led and GP-backed (1 for 4) walk-in clinics. Five hundred of these are already operating across the United States. Redi-Clinic, one of the new providers, is reported to have a 97 per cent patient satisfaction rating. Wal-Mart has announced that it will open such clinics in 2,000 of its outlets; Walgreens and CVS Pharmacies have purchased national retail clinic chains.
- In the UK, the NHS has responded in kind, opening walk-in centres with extended hours for patients who cannot gain access to their GPs. Private providers are also setting up walk-in clinics. Research has shown that people aged under 34 years old—that is, the next generation of healthcare consumers—are less loyal to their GPs than their parents' generation and instead prefer fast access to walk-in clinics.
- Doctors are responding to rising out-of-pocket budgets for medical care by converting their traditional practices into “boutique” medical practices. Rather than the old-fashioned episodic and inefficient fee-for-service model, the boutique practice offers chronic patients (such as diabetics) care packages worth \$1,500 for a whole year's medical service.
- US employers, who had taken the brunt of rising health care costs over the last decades, are quietly shifting costs to employees through premium increases, higher deductibles or more out-of-pocket payments. New consumer-driven healthcare plans in the US, while still a small percentage, are expected to triple in the next five years.
- Health care tourism is expanding in Europe, with German and English patients opting to pay a third or a half of what they pay at home by travelling to Warsaw or Budapest for dental work. Patients have been travelling across Europe for years to obtain major procedures at lower costs. The European Court of Justice ruled a couple of years ago that these countries should mutually reimburse such services.
- Offering dental work at one-fifth of US prices and inexpensive drugs, Mexico is attracting the majority of American medical travellers. New hospitals have opened in Tijuana since some US health plans are now covering services in Mexico. Stomach surgery, eye exams and routine check-ups are among the major services that Americans are seeking in Mexico. This is thanks to a legal system in Mexico that makes it almost impossible to sue dentists.
- In the interest of huge cost savings, US insurance products such as ‘Mini-med’ plans allow a limited number of doctor visits in the US each year, with a much higher allowance in visits elsewhere. As a mini-med provider, PlanetHospital will cover all costs, including travel arrangements and treatment abroad for heart surgery for only \$10,000.

These fledgling new health markets might finally undermine and outperform the behemoths of state-run health care, which only rarely use their purchasing power to benefit consumers. Walk-in customers, Internet drug buyers and healthcare tourists are building up pressure on providers in industrialised countries for more transparency in the quality and the prices of services, and finally for more consumer choices. One may be forgiven for thinking that this, of course, reflects the long-held conviction by classical liberals that markets perform better than governments in allocating resources, and are much faster to respond to the demands of consumers. Patients are realising that the power of the consumer vote, exercised many times every day on choices in different markets, is incomparably better than one political vote and a blank cheque to politicians every four years.

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