

Study of the commercial medicine market in Russia

for 2016 and the first half of 2017

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List of abbreviations

CMI – compulsory medical insurance
CT – computed tomography
FC – federal city
IC – insurance company
IVF – in vitro fertilization

MO – medical organization
MRI – magnetic resonance imaging
PET – positron emission tomography
PPP – public-private partnership
VMI – voluntary medical insurance

Introduction



EY has carried out the latest in its regular studies of the commercial medical market and healthcare system in Russia for 2016 and the first half of 2017, questioning medical organizations on issues currently affecting the development of the sector.

This time we decided to invite representatives of Russia's largest private multidisciplinary clinics¹ to take part in the study in order to find out how they view changes on the medical services market. Our aim was to ascertain the impact of those changes on the activities of medical organizations and the outlook for the

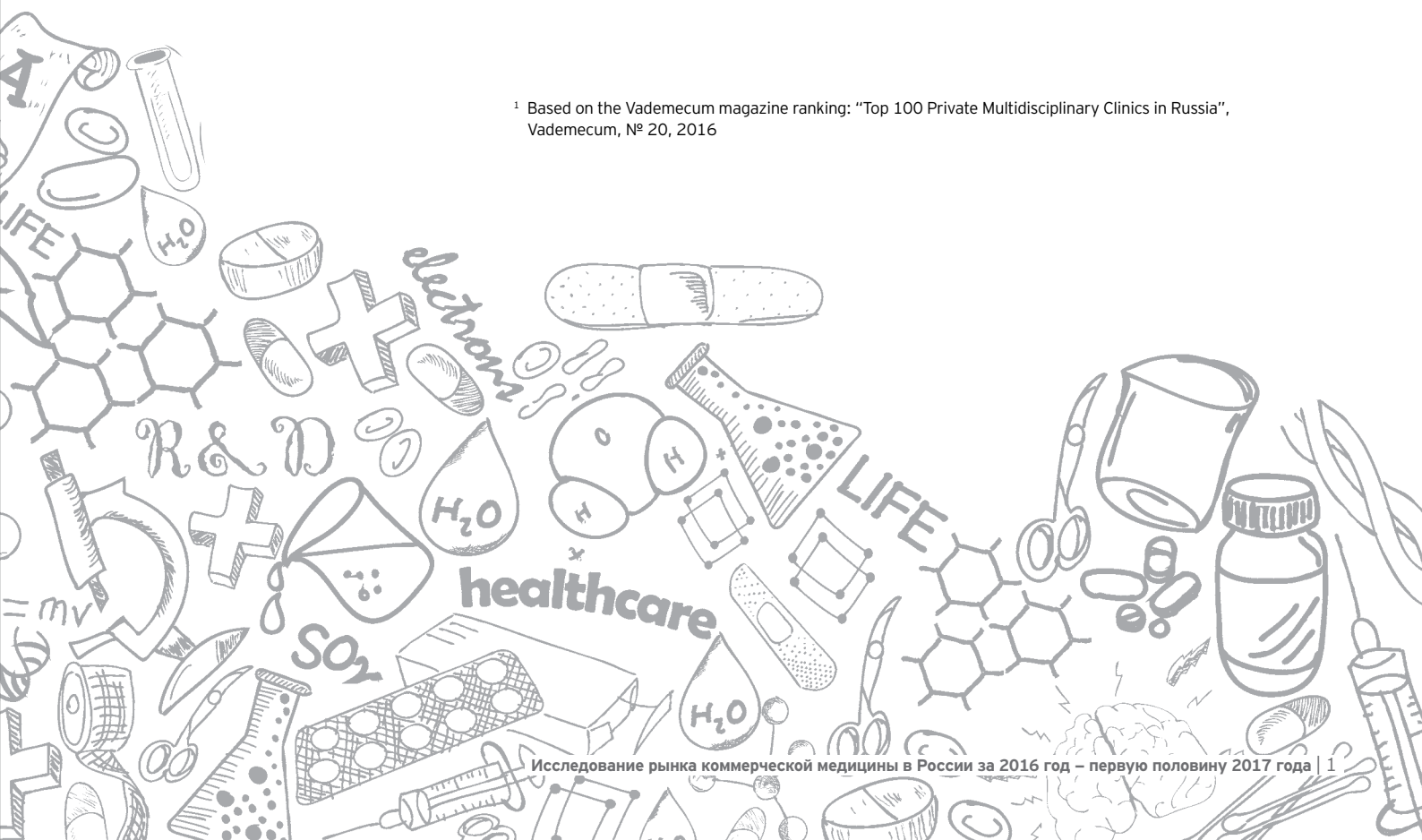
development of commercial medicine in Russia.

To allow for comparison with data from the 2015 study, we included the following blocks of questions in the questionnaire:

- ▶ changes and key trends on the paid medical services market;
- ▶ steps taken by the state which affect commercial medicine;
- ▶ changes in the activities of private medical organizations, key problems and development objectives.

Also this time we decided to add a new block dealing with such topical issues as telemedicine, medical clusters and medical tourism.

¹ Based on the Vademecum magazine ranking: "Top 100 Private Multidisciplinary Clinics in Russia", Vademecum, № 20, 2016



Main conclusions

Market demand, competition and outlook

Market demand

- ▶ 48% of respondents indicated a decrease in effective demand as result of patients trying to save money and streamline their expenditure on medical services. Their main criterion in this regard was the correlation between the price and quality of services received.
- ▶ Over 40% of those surveyed identified increased expectations among patients with regard to the quality and standard of medical care as one of the most significant trends. Patients increasingly expect their doctor to provide a personal approach and flexible communication, making them more likely to present complaints and grievances about the standard of service which are not related to the quality of medical care per se.
- ▶ 30% of participants in the study pointed to the growing penetration of modern Internet technologies into the medical services sphere and their impact on consumer behaviour.
- ▶ The pervasiveness of information technology raises consumers' expectations for rapid decision-making and accessibility of information and for a high standard of communication at all stages of the provision of medical services.
- ▶ For their part, clinics are pursuing a course of adopting information technologies, which offer maximum convenience and help to provide a high standard of service and transparency of information for patients.

Trends on the insured healthcare market

- ▶ The insured healthcare market continued to decline in 2016 in the voluntary and compulsory medical insurance segments.
- ▶ Over 40% of respondents identified such trends on the insured healthcare market as reduced expenditure by employers on voluntary medical insurance (VMI), cost cutting, stricter requirements on the part of insurance companies and more frequent inclusion of deductible clauses in VMI policies.

Impact of market trends on the operating results of medical organizations

- ▶ The aggregate revenue of the companies participating in the survey grew by 11.6% in 2016 compared with 2015, the highest growth being observed among medical organizations in the corporate segment (12.5%) and the lowest among those in the mass segment (7.6%).
- ▶ On average, operating profit margins among the surveyed clinics remained unchanged.
- ▶ Owing to the decrease in effective demand and, accordingly, the sensitivity of paying patients to prices for services, almost 30% clinics opted not to increase charges for private individuals (in 2015 this figure was only 18%), while 6% of surveyed medical organizations even lowered their prices slightly.
- ▶ As regards tariffs for VMI services in 2016, there was on the contrary an increase in the proportion of clinics which raised their tariffs by more than 5% - that proportion was 35% against 24% in 2015. However, the number of medical organizations which left tariffs unchanged remained at 35%.
- ▶ Many participants in the study pointed to a decrease in consumption of medical services per patient, which may be attributed to the fall in real household income and the trend towards purchasing only the most essential services.
- ▶ Just over 40% of respondents noted an increase in the quantity of medical services billed to insurance patients, while only 18% noted the same for private individuals. A decrease in the quantity of services billed to insurance patients was claimed by one third of clinics, while 36% of those surveyed indicated a reduction in the quantity of services billed to privately paying patients.
- ▶ All clinics which took part in the study indicated an overall increase in the number of patients in 2016. At the same time, a redistribution in the structure of patient flows had occurred at 63% of the surveyed clinics.

- ▶ Around 35% of respondents, primarily in the corporate segment, noted that some VMI patients had become privately paying clients.

Competition on the medical services market

- ▶ Around 80% of the medical organizations surveyed make some effort to monitor the actions of their competitors on the market, while the rest indicated that they did not see significant competition owing to the specific nature of their activities.
- ▶ 22% of respondents noticed no substantial changes in the activities of their competitors in 2016-2017. The remaining respondents identified three key trends: a wider range of services offered by competitors, more intense price competition, and the emergence of new players.
- ▶ 16% of respondents believe that their competitors overestimate market capacity in expanding their business operations, resulting in overheating of the market: some clinics have expensive equipment standing idle and underutilized facilities.
- ▶ 44% of respondents, primarily in the corporate and mass segments, are aware of price competition from small medical centres and state clinics

Market growth forecast and factors

- ▶ One half of respondents maintain a conservative assessment of the growth rate of the medical market, estimating it at 5-10%. A little over 20% of clinics predict a high growth rate (more than 10% per year), while 15% expect slow growth (less than 5%) or believe that the market will not grow.
- ▶ More than a half of participants in the study identified current problems in the state healthcare system as a major factor in the development of private medicine.

In this regard, 37% believe that socio-demographic factors will contribute to the growth of the medical services market, while 30% consider that increases in real household income will be an important factor.

The state

Compulsory medical insurance (CMI)

- ▶ The proportion of clinics participating in the CMI healthcare system rose from 52% to 63% compared with the results of the last survey.
- ▶ Most actively involved in the CMI system are clinics in provincial regions and clinics of the premium (80%) and mass (64%) segments.
- ▶ 26% of those surveyed do not plan to participate in the CMI system, citing low state tariffs for outpatient/polyclinic services and the low number of enrolled patients.

PPP

- ▶ 82% of those surveyed are not involved in PPP projects. Mass segment clinics and regional medical organizations take a more positive view of co-operation with the state under PPP arrangements, although the overwhelming majority of them are not yet ready for such co-operation.
- ▶ The main reasons for private clinics not taking part in PPPs are lack of initiative from the state and the expected low efficiency of such projects.

Important state measures affecting the activities of medical organizations

- ▶ 45% of participants in the study consider that the state has not taken any significant measures which affect the activities of their medical organizations
- ▶ Measures indicated by other respondents include bringing private clinics into the CMI system, granting benefits to commercial medical organizations and various amendments to the law (the introduction of electronic sick leave certificates and tougher requirements relating to the storage of personal data).

Activities of medical organizations: projects, investments and key problems

Projects carried out

- ▶ 67% of respondents have carried out projects aimed at expanding the range of medical services. The most popular area of focus was the development of in-patient facilities. This is followed by paediatrics (22%) – many point to good financial results obtained from launching services in this field.
- ▶ 67% of participants in the study have carried out projects aimed at increasing operating efficiency during the last eighteen months. The majority of them said that they pay constant attention to this issue.
- ▶ Almost 40% of respondents opened new network clinics, and 64% of all networks did so in their current regions of operation.
- ▶ 15% of participants in the survey, predominantly in the mass segment, closed one or more branches of clinics. This was primarily due to poor choice of region or clinic location.

Development objectives up to 2020

- ▶ The most popular answers to the question about projects planned for the medium term were the opening of new clinics and/or the expansion of activities on existing sites (for example, the building of new blocks) – this was indicated by 70% of respondents.
- ▶ 44% of those surveyed which are planning to open new clinics will do so in their current regions of operation, 50% in current regions of operation and new regions, and 6% only in new regions.

- ▶ Over 30% are planning to expand their range of medical services by 2020. Among these, 44% indicated that the expansion would involve telemedicine. A further 56% intend to open a full adult or children's in-patient facility, and 33% plan to launch paediatric services. Over 20% of participants in the study are intent on strengthening their surgical activities and opening a children's surgery division.

Investments

- ▶ Owing to increased uncertainty caused by unfavourable economic factors and dependence on the actions of contract partners, the proportion of companies surveyed which were unable to give an estimate of planned investments rose from 17% to 26% compared with the results of the last study.
- ▶ Fewer respondents indicated a readiness to invest large amounts in business: only 48% of them plan to invest more than 0.5 billion roubles in business as opposed to 61% in the last survey.
- ▶ One half of those surveyed stated that the yield on their investments matched their expectations, which was made possible by intelligent decision-making on the part of managers who took account of adverse macroeconomic factors.

Problems

- ▶ Staffing remains one of the key problems faced by medical organizations (this was indicated by 26% of respondents). The survey participants also pointed to external threats and problems in dealing with patients and insurance companies.
- ▶ Staffing problems indicated by survey participants included the low skill level of medical personnel and a lack of healthcare managers.

Current talking points in healthcare

Telemedicine

- ▶ 56% of respondents take a positive view of telemedicine and feel certain that there is significant potential in developing this field.
- ▶ Around 40% of those surveyed are in the process of discussing and implementing projects, while 48% have adopted a wait-and-see approach or have no plans at all in the area of telemedicine.
- ▶ Many clinics which take a sceptical view of telemedicine nonetheless intend to pursue projects in this area in order not to fall behind their competitors.
- ▶ The participants in the survey expect the most popular types of telemedicine services to be treatment adjustment / follow-up consultation (30% of those

surveyed) and the provision of a second opinion (26%).

- ▶ 22% of participants in the study see no commercial prospects in telemedicine and regard it as an essential component of customer service, while the same number again plan to provide telemedicine services to current patients on a paid basis.
- ▶ 67% of respondents pointed to the lack of a legislative framework as the main impediment to the development of telemedicine in Russia.

Creation of medical clusters

- ▶ Only 26% of those surveyed take a positive view of the creation of medical clusters. The other participants in the study do not understand the concept, or take a sceptical view, or believe that the particular nature of their business makes such projects irrelevant to them.

Medical tourism

- ▶ 78% of respondents accept medical tourists at their clinics. However, for 55% clinics such tourism accounts for no more than 1-2% of revenue.
- ▶ Only 23% of respondents refer their patients to other clinics for treatment, while 35% see no need for this owing to the fact that they provide a full range of services themselves.
- ▶ 30% of all respondents, predominantly in the corporate and mass segments, stated that they plan to develop medical tourism and are intent on increasing the flow of patients.



The Commercial Medicine Market: Demand, Competition and Development Forecasts

Changes in consumer preferences and trends

On the subject of consumer preferences in 2016-2017, around a half of the respondents pointed to a decrease in effective demand, as a result of which patients were trying to cut costs and streamline their expenditure on medical services. The main criterion for them was the correlation between the price and quality of services received. The trend towards cost-cutting and less frequent visits to medical organizations among consumers was most clearly perceived in the mass and corporate segments of the private healthcare market. At the same time, somewhat fewer premium segment clinics pointed to this trend, which is due to the high proportion of financially sound consumers in the structure of their patient flow.

One of the key consumer preferences indicated by many clinics was for integrated healthcare packages, enabling patients to receive a full range of medical care in one place - from standard polyclinic services to emergency surgery. However, 15% of respondents, predominantly in the mass segment, indicated that the fall in disposable income had led to a change in demand: integrated packages and programmes lost ground to one-off services, especially in the second half of 2016.

“Patients are turning away from packaged solutions in favour of dealing with problems as and when they arise”.

Clinic representative

Figure 1. Demand for medical services: main trends in 2016-2017

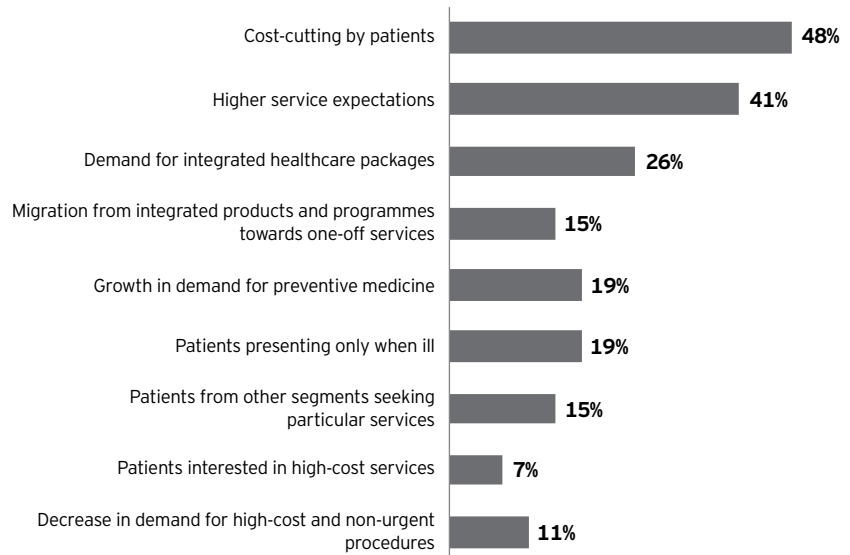
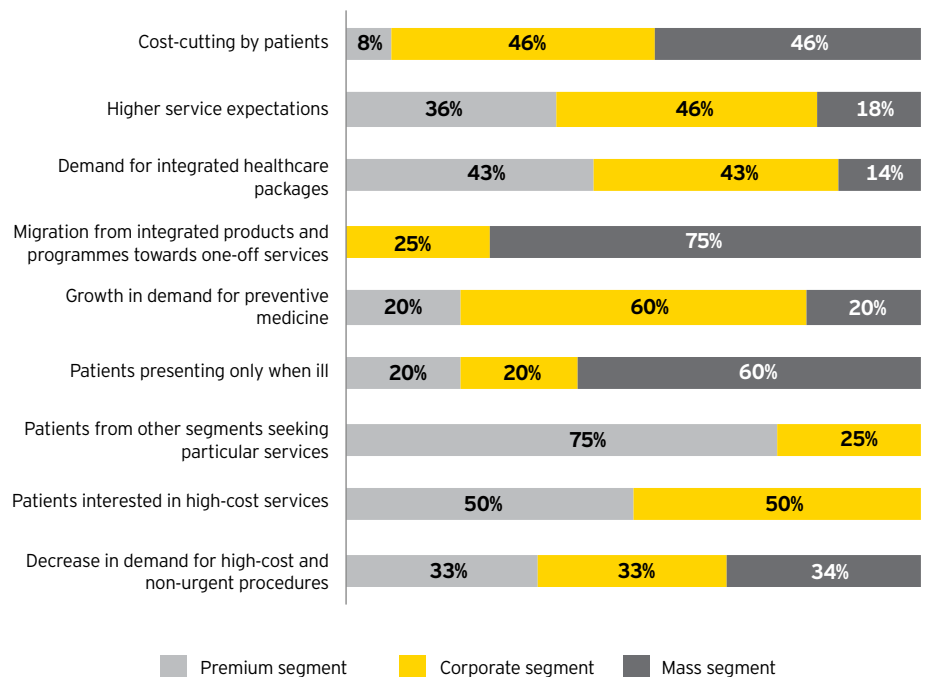


Figure 2 Demand for medical services in 2016-2017: distribution by market segment



Many participants in the study pointed to a diversification of demand. Consumers compare prices and choose cheaper options for basic services or laboratory tests, while going to distinguished specialists, including at clinics in a higher price segment, to deal with specific problems and complex cases. Another example cited by the participants in the study is where a patient goes to a private clinic for certain services which are difficult to obtain at a state medical organization (such as MRI or ultrasound tests) and returns to the doctor at their local polyclinic for further consultation. Clinics linked this selective approach to the social status of the patient concerned, indicating that it was most often used by consumers in the mass segment of the market.

“People are counting their pennies and becoming more frugal: for example, while patients used to come to us to have tests done and consult with a doctor, now they speak to a good doctor, shop around for ultrasound scans and have tests done at a polyclinic under CMI”.

Representative of a clinic network

The respondents were divided in their opinions on demand for certain high-cost services: representatives of some clinics indicated a fall in demand for high-cost and non-urgent services, including cosmetic surgery, orthopaedics, prosthetics, implants and expensive and complex types of surgical operations. They also noted a decline in visits for therapeutic procedures such as physiotherapy, massage and manual therapy. Some clinics operating in the premium and corporate segments held the opposite view. They indicated that patients had continued to invest in such services in 2016-2017. They also emphasised a growing interest in laboratory diagnosis and reproductive technologies.

“Generally speaking, people go to the hospital when a specific problem arises and don't look after themselves. There is a small group of people who get themselves checked out on a regular basis, but the broad mass of people are not receptive to the idea of preventive medicine”.

Representative of a medical centre

Contradictory views were also expressed about the development of preventive medicine. Some respondents referred to the low level of health awareness among the public, the lack of preventive treatment and the tendency of patients to visit a doctor only when necessary or when they have severe symptoms. All of this has a negative impact on such indicators as the annual number of visits to a medical organization per patient and the level of loyalty of patients to a particular clinic. As a result, medical organizations are introducing new services and products, improving their customer service and implementing other initiatives aimed at maintaining and attracting clients.

Other clinics, mainly from the corporate segment, indicated, on the contrary, a growing trend in favour of healthy lifestyles and the development of a responsible approach to health matters among Russian citizens. This leads to increased interest in early disease diagnosis programmes, a decrease in the average age of visitors to clinics and the gradual development of a culture of making regular visits to the doctor.

“People's sense of responsibility for their health has greatly improved. They spend less on luxuries and more on their health. It is fair to say that in 2016 more attention was paid to preventive care, and in particular to diagnostics”.

Representative of a clinic network

At the same time, while commenting on certain manifestations of healthy lifestyle trends among the young generation (jogging, fitness routines, swimming, participation in triathlons, etc.), medical professionals pointed to a tendency in that group of patients to neglect the need for diagnostic care or supervision by a doctor. This attitude could have negative consequences, such as injuries or early heart attacks or strokes.

Over 40% of the respondents indicated as one of the most significant trends the rise in patients' expectations with regard to the quality and standard of provision of medical care, and in particular the customer service component of medical services. This is particularly evident in the premium and corporate segments of the market. Participants in the study noted that patients increasingly expect their doctor to provide a personal approach and flexible communication, making them more likely to present complaints and grievances about the standard of service which are not related to the quality of medical care per se. Some clinics mentioned the phenomenon of growing “patient extremism”, whereby patients seek to resolve issues through litigation or pre-litigation procedures.

“The market is becoming more mature, clients have more choice and higher expectations regarding the quality of treatment and the standard of customer service.”

Representative of a clinic network

Representatives of medical organizations also mentioned the following characteristics of demand for paid medical services in 2016-2017:

- ▶ Patients prefer to visit clinics in person rather than calling a doctor out to their home. Patients typically wanted to have their illness dealt with in the shortest possible time with the minimum number of return visits.
- ▶ Patient flow is linked to salary payment patterns, as is evidenced by the increased number of visits in the first half of a month and the reduced number at the end of a month.

- ▶ Patients contact specialized doctors (some clinics identified five highest-demand specializations). In this regard private medical organizations are favourably distinguished from their state counterparts, where an initial GP consultation is required.
- ▶ Patients expect the use of high-technology methods of diagnosis and treatment.
- ▶ Patients show sensitivity to the initial consultation price and to various promotions and discounts for medical services.
- ▶ Women account for the bulk of patient flow (75% at some medical organizations), which induces clinics to target new services and promotions primarily at that category of consumer.
- ▶ There has been a shift in the traditional patterns of visits to medical organizations, which the respondents attributed to changes in the timing of people's holidays owing to the increased cost of going on holiday in peak periods.

Figure 3
Distribution of patients by gender

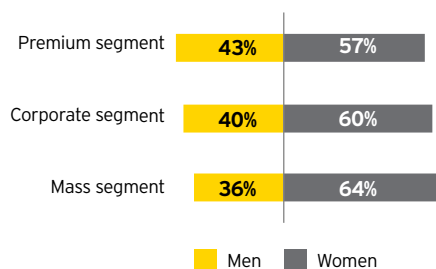
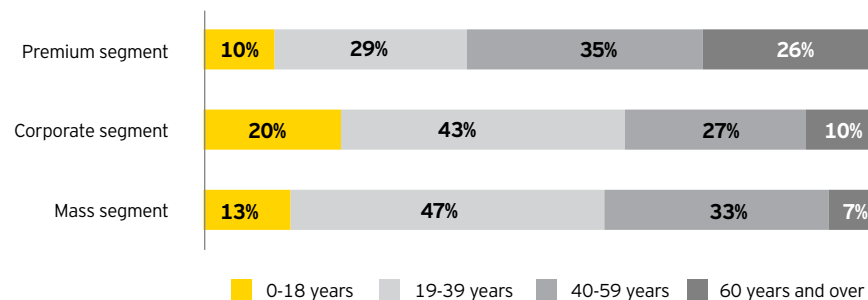


Figure 4
Distribution of patients by age



Trends among Moscow patients

Trends observed by representatives of Moscow medical organizations included a reluctance among working-age patients to request time off work to visit a doctor or to be issued sick leave certificates, and demand for clinic services in non-working hours and at weekends. It is therefore becoming more important for clinics to operate a 24-hour service.

According to participants in the study, the outpatient clinic segment has seen a rise in demand for instrumental diagnosis, psychiatry, reflexology, manual therapy and osteopathy services, while the in-patient segment is experiencing demand for plastic surgery services, high-technology operations and IVF.

Trends among regional patients

Representatives of regional clinics pointed to a growing demand for diagnostic types of services, including cancer check-up programmes. However, they noted a decline in the flow of first-time patients and a tendency for patients to opt for cheaper services.

Technologies used for communication with patients

30% of participants in the study pointed to the growing penetration of modern Internet technologies into the medical services sphere and their effect on consumer behaviour. In particular, they noted the following:

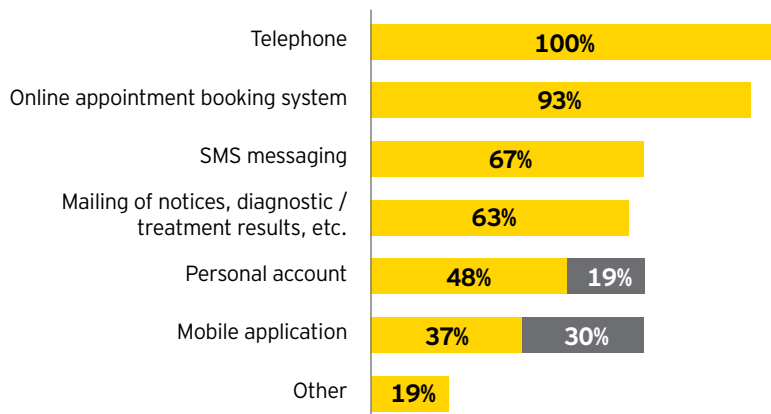
- ▶ patients are better informed owing to the use of the Internet for self-treatment and diagnosis, which may impede proper diagnosis and effective communication with a doctor;

- ▶ wider knowledge about medical services, including increased availability of information on clinics, doctors, quality of services, etc., thanks to social media networks and review and comparison sites for medical services;
- ▶ proliferation of health monitoring devices (fitness bracelets, smart watches, etc.) and willingness of patients to combine independent health monitoring with services provided by medical organizations.

In the context of the increased use of technology, the respondents generally observed that consumers had higher expectations with regard to decision-making and the availability of information on prices and services provided and with regard to the standard of communication at all stages of the provision of medical care. This means that having a high-quality website, enabling online appointment booking, launching a mobile application and personal account system and responding promptly to patients' complaints and reviews are becoming important aspects of customer service for medical organizations.



Figure 5
Services and technologies used for remote communication with clients



Almost all clinics which took part in the survey stated that they had an online system for booking an appointment with a doctor. Over 45% of medical organizations had created a personal account system for patients, and another 19% of those surveyed intended to offer this service in the near future. In some cases a personal account system is to be developed in combination with a mobile application. A mobile application is currently used by 37% of medical organizations, but many participants in the study indicated their intention to launch one by the end of 2017. The view was also expressed that a mobile application would be essential for clinics planning to introduce telemedicine services.

The most popular methods indicated by medical organizations for communicating with patients were telephone (100% of respondents), SMS, which is used to confirm appointments or communicate news (67%), and email (63%). At the same time, some participants in the study that the written consent of patients was needed for the latter two channels of communication, which sometimes limits their use.

Other methods of remote communication indicated were chat boxes on a clinic's website, including for the purpose of referral to the appropriate specialist, website conferencing with a specific doctor, the sending of push notifications to patients and the use of call centres to conduct surveys of patients.

Thus, clinics are choosing to adopt information technologies which provide maximum convenience, a high standard of service and transparency for patients. Other prospective developments mentioned both for individual clinics and

for the medical services market as a whole are optimization programmes which will help patients choose where, at what price and from which doctor to obtain a particular medical service.

Trends on the insured healthcare market

According to the participants in the study, the volume of the insured healthcare market in the voluntary and compulsory medical insurance segments continued to decline in 2016-2017.

A negative trend indicated by the respondents in the CMI segment is the reduced accessibility of medical care, due in part to the decrease in the number of state medical institutions, while private clinics have no incentive to provide polyclinic services owing to low tariffs. Some respondents also said that insurance companies were leaving the CMI system.

As regards VMI, over 40% of participants in the study identified the following factors as shaping the situation on the market:

- ▶ **Reduced expenditure by employers on VMI programmes and decisions by some companies to stop insuring their employees.**

Many respondents noted that after the economic crisis began employers began cutting their expenditure on medical insurance for employees, scaling down VMI programmes (including by limiting insurance cover for children and relatives) and making lower payments for existing programmes. Some companies give up VMI altogether if they are not making a profit.



“Since 6% of payroll is charged to costs and deducted from taxable profit, unless they are making a profit employers have nothing to gain from insuring employees”.

Representative of a clinic

Regional clinics also noted that there are far fewer policyholders in the regions than in Moscow, which holds back any growth in the proportion of insurance clients at clinics and the development of the local VMI market.

- ▶ **Cost-cutting by insurance companies, manifested in the reduction of the volume of services available under VMI programmes, optimization of payments and tougher scrutiny of insured events.**

Participants in the study also noted that insurance companies were asking clinics not to raise prices or endeavouring to conclude long-term agreements with them (longer than a year) in which prices were fixed. On the one hand, this limits opportunities for medical organizations to raise tariffs, but on the other it provides a guaranteed volume of potential medical services under VMI policies.

“Insurance companies are cutting costs. Whereas before their focus was on helping patients, now it is on dealing with their losses. Their message to clinics is ‘If you operate at cost, the patients are all yours’”.

Representative of a clinic

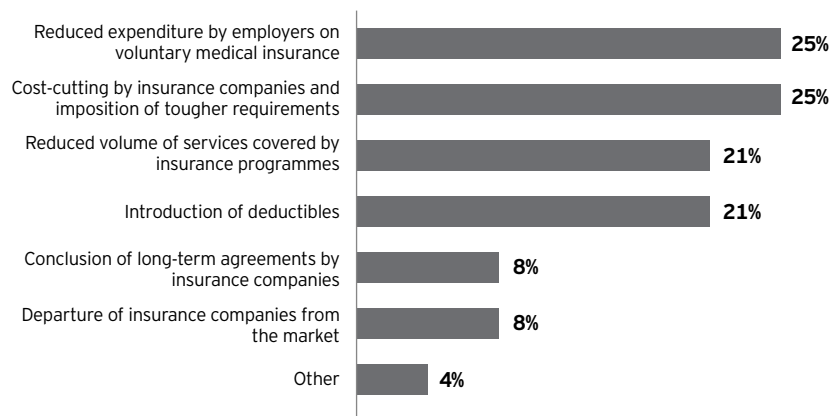
► **Trend towards the use of deductible clauses whereby a certain proportion of the cost of services (usually around 20-30%) is borne by the patient.**

The respondents agree that the introduction of deductibles benefits insurance companies themselves rather than medical organizations, as list prices for medical services under a plan with a deductible are discounted. Furthermore, such arrangements encourage patients to limit their expenditure and the number of visits they make, which has a negative effect on a clinic’s operating results. However, more and more medical organizations are opting for co-payment systems as long as insurance companies ensure a flow of patients.

► **Departure of insurance companies (mostly small insurers) from the market and consolidation of the insurance market.**

Generally speaking, despite the restrictive policies of insurance companies, medical organizations try to maintain partnerships with them. The insurance market is limited from the point of view of both insurers and insureds. For this reason, the departure of insurance companies from the market or the termination of relationships with them is bound to have a negative impact on clinics with a high proportion of VMI patients.

Figure 6
Trends on the insured healthcare market



“We have noticed that insurance programmes are being curtailed and companies are increasingly introducing deductibles and indirect access whereby they negotiate services themselves. We do not worry about this: the time has come, the market is changing. We do not confront insurers over this issue, but provide them with convenient formats for dealing with us”.

Representative of a clinic

Some respondents pointed to more effective interaction between participants in the insurance market: for example, whereas in 2012-2013 employers sought to minimize the cost of medical insurance contracts and tried to “squeeze as much as possible out of insurance companies”, now they work in the same direction and the market is becoming more transparent. In particular, insurance companies inform policyholders of their employees’ actual expenditure under VMI policies and what effect this has on tariffs. This results in more trilateral meetings involving insurers, employers and medical organizations.

As regards the behaviour of insurance patients, medical organizations expressed differing views. Some clinics pointed to a reduction in the number of visits owing to the patient’s fear of losing work or lack of time to visit a doctor. Other clinics, on the contrary, observed that the fall in household income had led patients to

make more active use of corporate and private VMI policies, and also noted an increase in CMI patient flows.

Another interesting trend on the insured healthcare market identified in the course of the survey is the emergence of alternative insurance, which essentially consists in the creation of an Internet platform through which agreements are concluded with employers interested in making medical services part of a benefits package for employees. The employer pays a premium (around 5%) and makes a deposit which is spent as and when an insured event arises. After a certain period of time the remaining amount may be refunded to the employer or used at its discretion. This arrangement is obviously more advantageous for policyholders than traditional insurance, since insurance companies do not currently refund amounts that have not been used under VMI contracts.



Impact of market trends on the operating results of medical organizations

According to data published by BusinesStat, in 2016 the aggregate volume of the legitimate commercial medicine market and the VMI sector in Russia amounted to 515 billion roubles, showing 8.4% growth over the preceding year. The main driver of growth was the 14% increase in the average cost of a medical appointment, while the volume of services provided decreased by 5%.

Medical organizations which took part in the survey generally demonstrated more positive movements in their key performance indicators compared with the paid medical services market.

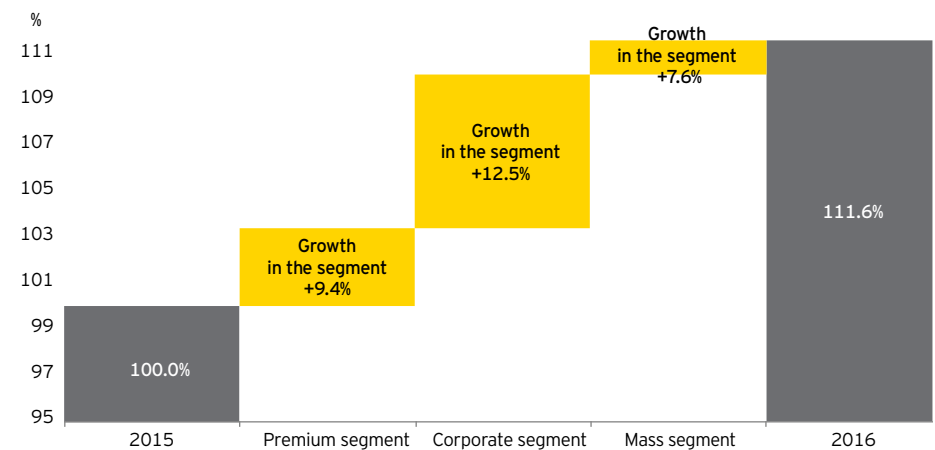
Revenue and operating profit margins

The aggregate revenue of companies which participated in the study grew by 11.6% in 2016. The highest revenue growth is observed among medical organizations in the corporate segment (12.5%), and the lowest in the mass segment (7.6%)². In the premium segment the revenue of surveyed companies grew by an average of 9.4%.

Despite adverse trends on the commercial medicine market and in the VMI segment (cost-cutting by patients, reduced number of visits, etc.), companies surveyed achieved an increase in revenue owing to growth in the average cost of medical services and increased flows of patients at clinics. Many clinics attributed the improvement in their indicators to the broadening of their areas of expertise and

Figure 7

Revenue growth of medical companies by market segment



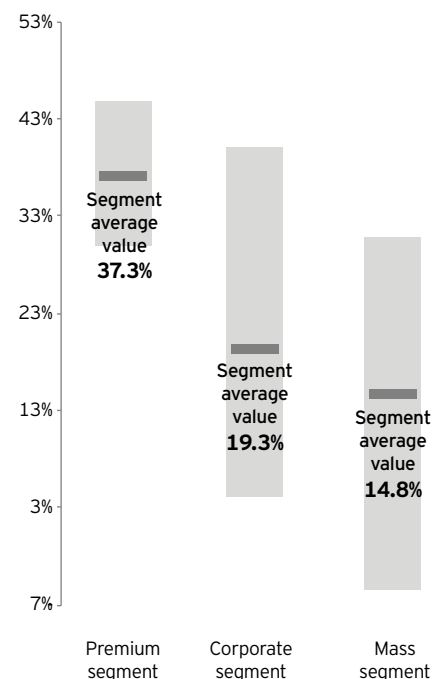
the expansion of the range of services offered, the opening of new divisions (such as in-patient facilities, paediatric services, etc.), marketing activities, flexible arrangements with insurance companies and the shift in demand towards private medicine and away from services provided by state healthcare institutions.

Average operating margins for surveyed clinics remained unchanged. Premium segment clinics demonstrate the highest margin - 37.3%, which is due to the high cost of the services they provide and the predominance of private individuals in the composition of their patient flow.

The average operating profit margin was almost twice lower in the corporate segment and 2.5 times lower in the mass segment, which is partly due to the high degree of differentiation in prices for medical services in those clinics and the high proportion of insurance patients treated by them.

Figure 8

Operating profit margins by market segment



² Here and hereafter in this section: based on data provided by the participants in the study

The following growth factors may be identified in 2016 for each market segment:

- ▶ In the premium segment growth was mainly due to an increase in patient flow (by 4.6%) combined with a moderate rise in the average cost of a medical service and the quantity of services provided per patient.

- ▶ In the corporate segment there was likewise an increase in the number of patients, but the main growth driver was the significant rise in the cost of a medical service (by 10.6%), which compensated for the decrease in the volume of services acquired.

- ▶ In the mass segment, despite the increase in patient flow and in the average cost of a medical service, growth was restricted by the 1.2% reduction in the quantity of services in the average bill.

Figure 9
Changes in indicators in the premium segment

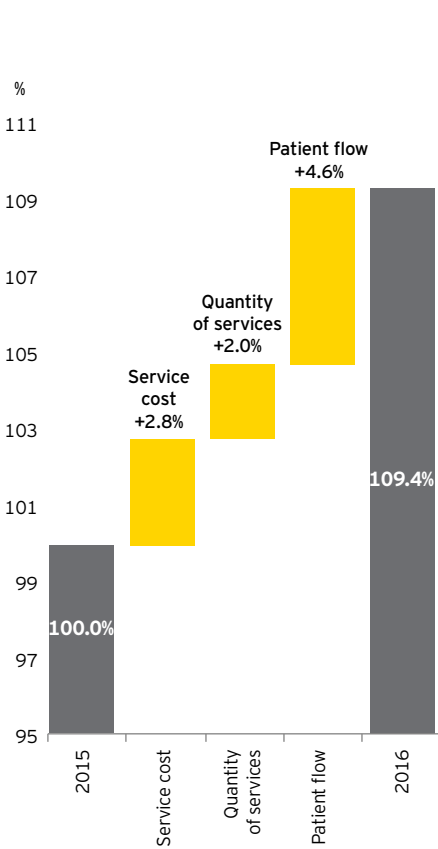


Figure 10
Changes in indicators in the corporate segment

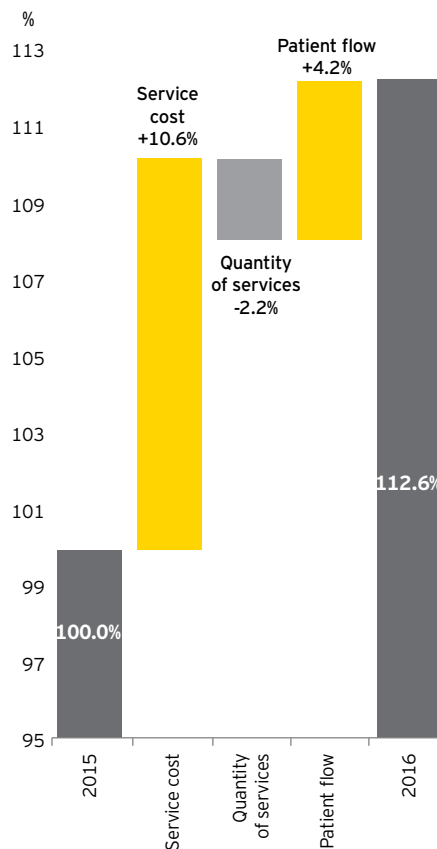
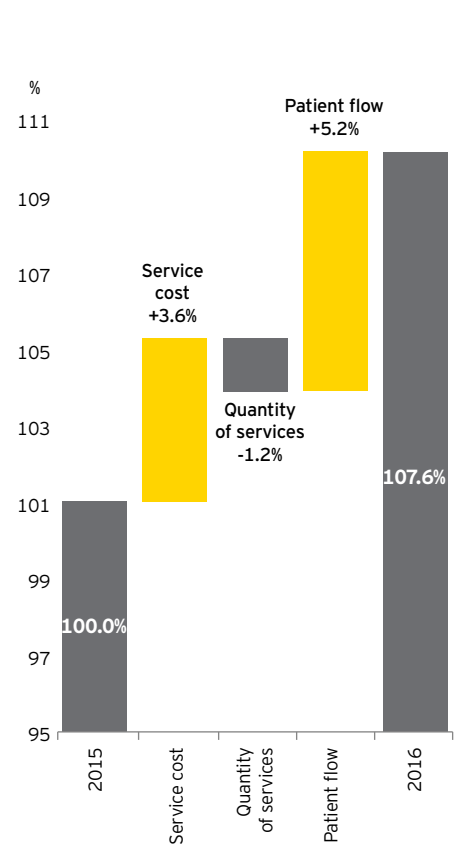


Figure 11
Changes in indicators in the mass segment



Changes in prices for medical services

In 2016 the participants in the study somewhat changed their approach to pricing for services for private individuals and VMI patients compared with the preceding year.

In view of the decrease in effective demand and the consequent heightened sensitivity of private patients to prices for services, 29% of clinics decided not to raise tariffs for private individuals (in 2015 this could only be said of 18% of medical organizations), and 6% of surveyed medical organizations even lowered their prices slightly. The proportion of clinics which significantly raised tariffs for private individuals fell by 6% in 2016.

Disposable income is falling, and we took the decision not to raise prices - so far this is having a positive effect on turnover".

Representative of a clinic network

The segment in which prices for services for private individuals grew the most in 2016 was the mass segment, where the increase was recorded at 11%. In the premium and corporate segments the growth in tariffs for private individuals amounted to 6-7%. Thus, increasing tariffs enabled clinics to compensate for the decrease in the quantity of medical services acquired by patients.

Figure 12
Changes in tariffs for services for private individuals in 2015-2016

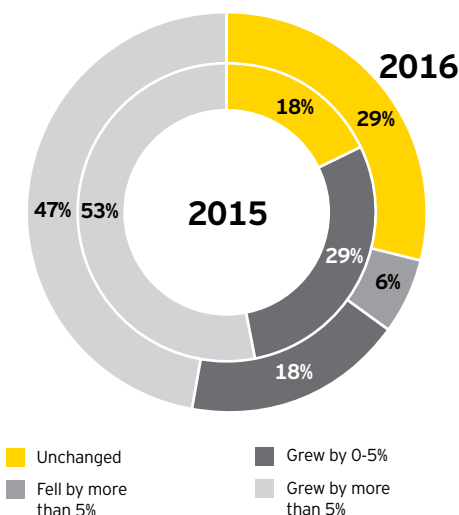
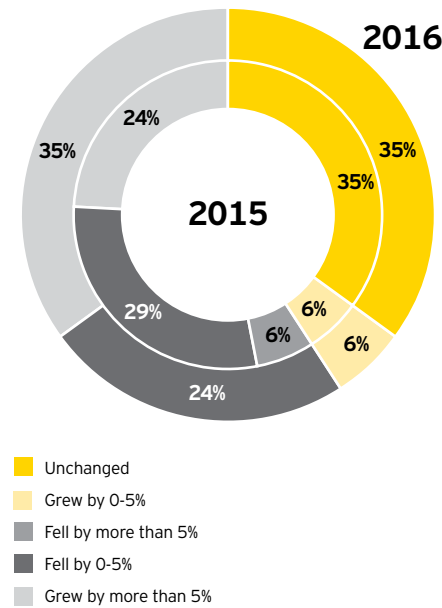


Figure 13.
Changes in tariffs for VMI services in 2015-2016



In the case of VMI services, on the contrary, the proportion of clinics which raised tariffs by more than 5% rose in 2016 to 35% versus 24% in 2015. However, the proportion of medical organizations which left tariffs unchanged remained at 35%.

Premium segment clinics increased tariffs for VMI services by an average of 5%. In the mass segment those tariffs increased by 11%, and in the corporate segment by only 2%. The modest rise in VMI tariffs in the corporate segment is due to the stronger dependence of the medical organizations in question on insurance companies, which are currently pursuing policies of cutting costs and keeping prices unchanged.

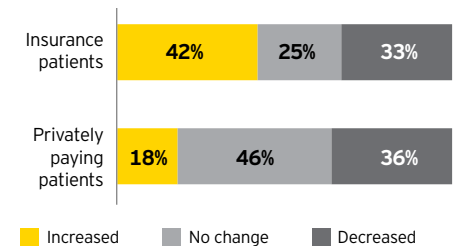
As far as price rises in the near future are concerned, some medical organizations indicated that they did not plan any increases before 2018, while others had planned price rises for autumn 2017.

According to some respondents, changes in prices for a clinic's services are influenced by changes in the cost of consumables and the degree of demand for a particular medical service or a specific specialist.

Changes in the quantity of services in the average bill

Around 40% of the medical organizations surveyed indicated that no particular changes in the volume of demand for their services had been observed in 2016. At the same time, many participants in the study noted a decrease in the consumption of medical services per patient owing to the fall in real household incomes and the tendency to acquire only essential services.

Figure 14
Changes in the quantity of services in the average bill for insurance and privately paying patients in 2015-2016



In this respect, somewhat different pictures emerge for insurance patients and for those paying privately: 42% of respondents noted an increase in the quantity of medical services in the average bill of an insurance patient, and only 18% in a private patient's bill. A decrease in the quantity of services in the average bill of insurance patients was noted by 33% of clinics, while 36% of those surveyed referred to a reduced quantity of services in the case of private patients.

This is in keeping with trends which have formed on the private medicine market in the current economic environment, whereby private individuals adopt a frugal consumption model while insurance patients try to get as many services as possible under their healthcare programmes.

"Insurance patients try to make maximum use of services available under their programmes, while private individuals are most concerned with obtained the best correlation between price and quality".

Representative of a clinic network

Changes in patient flows

All clinics which took part in the study reported an overall increase in the number of patients in 2016. A redistribution in the structure of patient flows had occurred at 63% of surveyed clinics.

Around 35% of respondents, primarily in the corporate segment, noted that some VMI patients had become privately paying clients. This may be attributed to trends on the insurance market such as reduced expenditure by employers on insurance programmes, the restriction by insurance companies of the range of services covered by insurance policies and the introduction of deductibles, meaning that patients are forced to pay for some services themselves.

“We are seeing patients moving from the VMI segment into the category of privately paying patients. This was particularly noticeable in 2016”.

Representative of a clinic

Players on the VMI market expressed the view that the proportion of insurance patients receiving medical services on a paid basis would continue to increase in the future. Despite this, some medical organizations plan to grow their VMI client base owing to the fact it offers a guaranteed flow of patients. Furthermore, patients in this category may pay for additional medical services which are not included in their insurance programme.

In addition to the redistribution of VMI patients, the growth in the number of privately paying clients at clinics is aided by the migration of patients from state medical institutions to private clinics as a result of healthcare reforms.

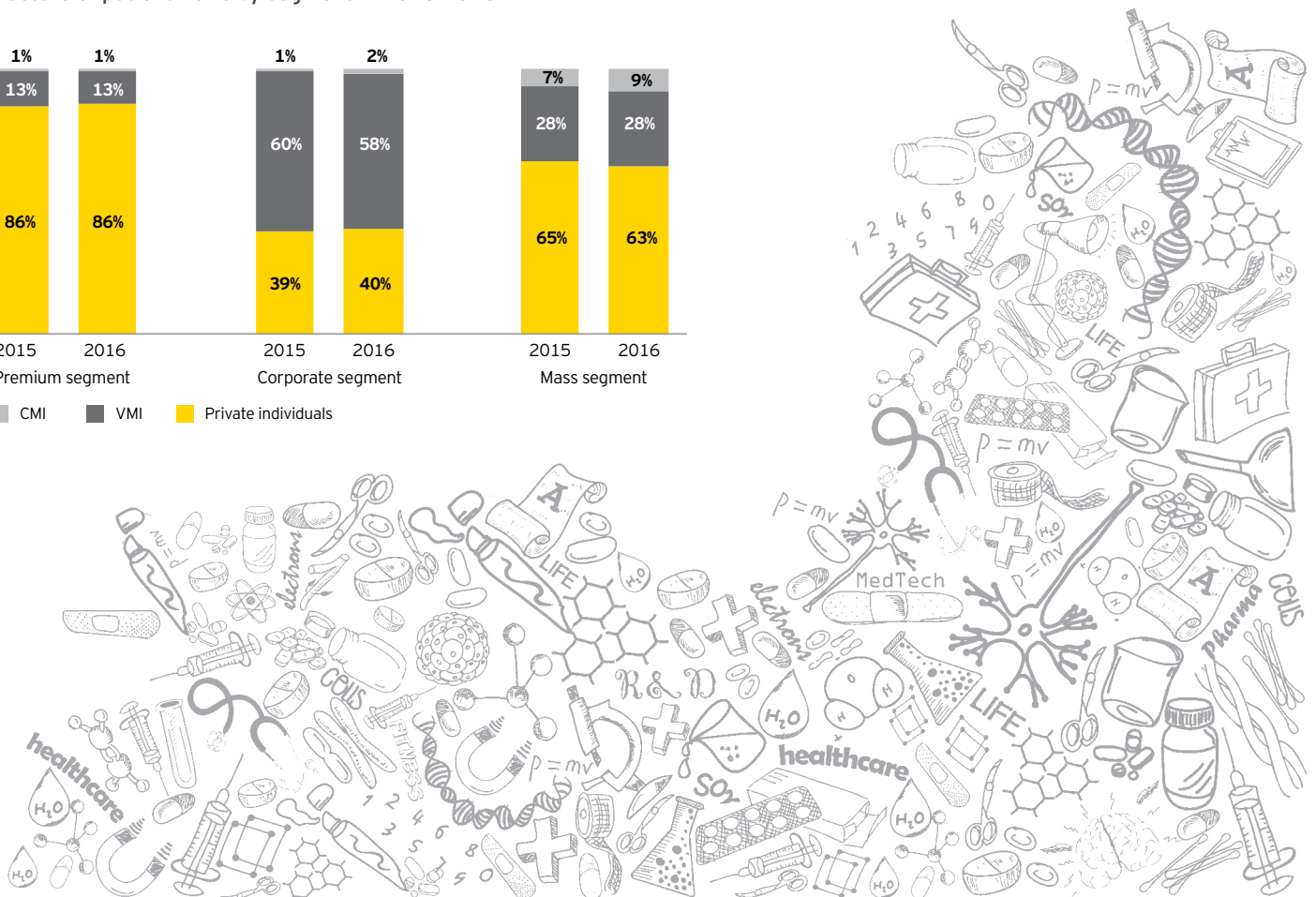
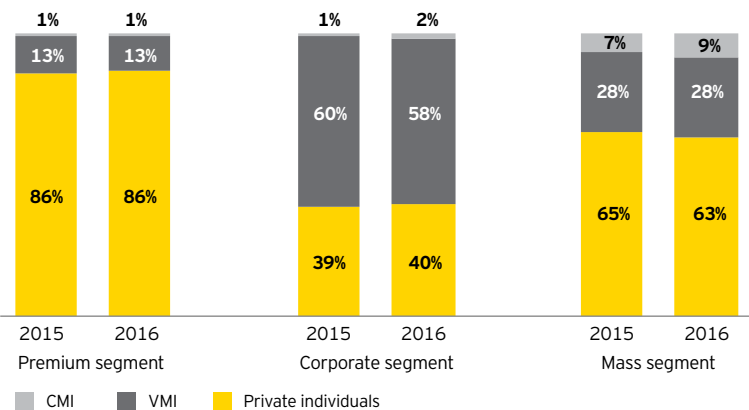
However, clinics are divided in their opinions on this trend. Some respondents say that the inaccessibility of good-quality medical care at state healthcare institutions will result in a significant increase in demand for paid medical services. Others believe that patients from state clinics may go to private clinics for one-off services that are unobtainable at their polyclinic, but will continue to use

free services for the bulk of their healthcare needs.

Another trend observed in 2016 primarily in mass segment clinics is the growth in the proportion of CMI patients in the composition of patient flows at outpatient facilities. In addition to the increased traffic, the clinics are in a prime position in the long term to offer these patients additional services on a paid basis: some respondents estimate that “CMI patients pay much more into the till than VMI patients”.

In the opinion of those surveyed, the future distribution of patients at private clinics will depend on the direction of changes in the CMI/VMI system, which will be determined largely by the economic situation in the country and state healthcare policies.

Figure 15
Structure of patient flows by segment in 2015-2016



Competition on the medical services market

In answering the question on competitors, in addition to identifying them with a particular market segment the participants in the study also distinguished them by reference to a number of parameters:

- ▶ business model (more than half of those surveyed named private multidisciplinary network clinics as competitors);
- ▶ geographic location (30% of respondents indicated clinics located in the same district or region as their competitors);
- ▶ areas of activity (around 15% of respondents distinguished competitors by reference to VMI/types of medical services/the in-patient segment).

Some clinics continued to feel competition from state healthcare institutions in 2016-2017. State institutions became more competitive thanks to facility upgrades carried out under state programmes and entered the paid services market. This makes it increasingly difficult for private medicine to compete with them, since the

“Competition between private and state healthcare is becoming more noticeable every year. We feel certain that this is something we will come up against in a year or two”.

Representative of a clinic network

support state clinics receive from the budget enables them to set lower prices while offering a wide range of medical services.

At the same time, the participants in the study noted on the subject of competition that “there is no know-how in medicine. All clinics have the same equipment and the same services, the only difference is in the standard of provision and perhaps in the cost of consumables”.

The respondents noted the high level of competition on the Moscow medical services market and the relatively low level in the regions, where not as many private medical organizations have been established and competition comes from state healthcare institutions.

Sources of information on competitors

Around 80% of the medical organizations surveyed make some effort to monitor the actions of their competitors on the market, while the rest indicated that they did not see significant competition owing to the specific nature of their activities.

The most common method of monitoring competitors' activities is by analysing information from public sources (industry-related Internet resources and print publications). At the same time, the participants in the study noted that not all information on the medical services market which is obtained from public sources is objective.

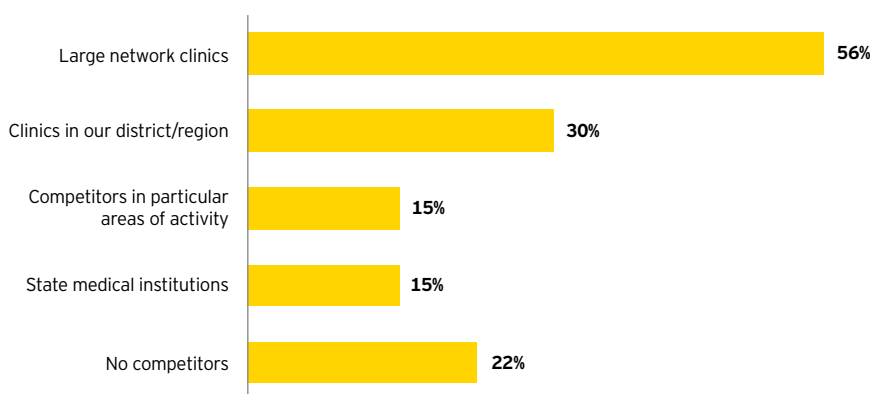
“There are always rumours circulating on the market, news that someone is planning to sell or buy or investors are on the lookout, but nothing actually happens”.

Representative of a clinic network

Respondents also said that they track prices and service offerings on official websites of medical organizations. Moscow clinics additionally reported that market players held meetings and exchanged information in the context of events organized by the local Private Clinic Association.

Other information gathering methods identified by participants in the study were industry and expert conferences, communication between specialized doctors, patient surveys, communication with insurance companies and investment funds or their own information channels. Some clinics use the “secret shopper” method, which enables good and bad points in competitors' activities to be seen “from inside”. Others track changes in industry-related real estate in particular areas of a town.

Figure 16
Whom do you regard as your competitors?



Key trends in the activities of competitors

Overall, 22% of respondents noticed no major changes in the activities of their competitors in 2016-2017. Among the participants in the study, those in the premium segment identified market consolidation and the weakening of competitors as the main trends, while those in the corporate segment pointed to

the strengthening of competitors and expansion of the range of services. The main changes noted by respondents in the mass segment were more intense price competition, the appearance of new competitors and participation in PPP projects.

Expansion of the range of services

One half of those surveyed considered that clinics had continued to develop in multiple areas in 2016-2017 through the opening of in-patient and day patient facilities and children's wards, the introduction of new medical products and services, technical developments in laboratory and hardware diagnostics and the growing use of high technologies.

Offering a full range of services is, among other things, a factor that helps clinics to retain patients: "If you don't offer a comprehensive range of services, the patient will go to another clinic for a particular treatment, where he will be persuaded into receiving all his medical services there".

According to 16% of respondents, competitors overestimate market capacity in expanding their activities. As a result, the MRI market is overheating, expensive equipment stands idle and a number of medical organizations are experiencing problems with underutilization of facilities.

Figure 17
Trends in the activities of competitors

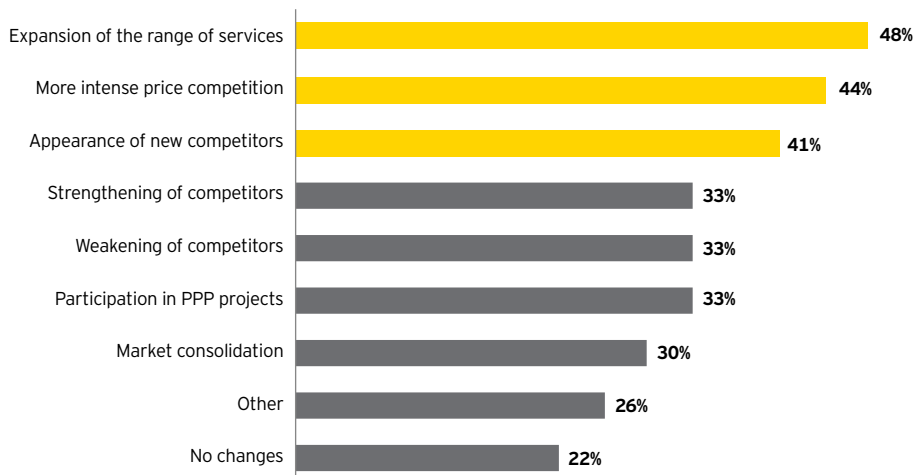
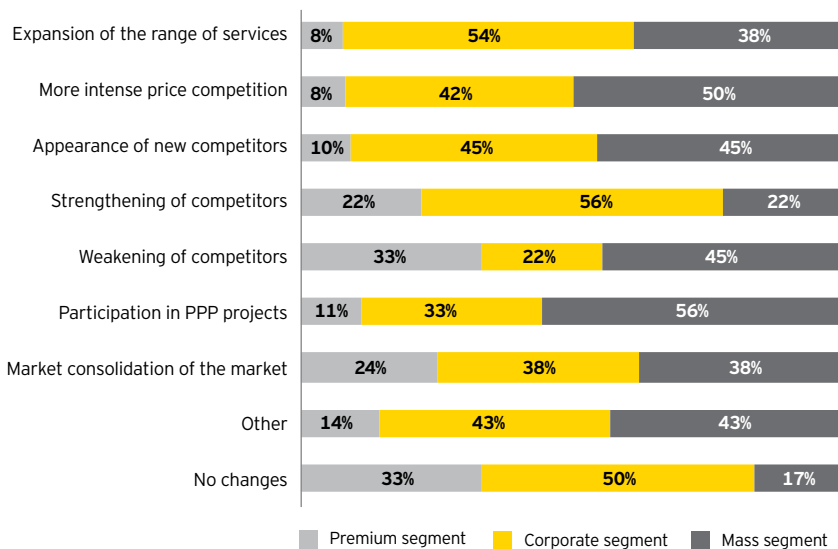


Figure 18
Trends in the activities of competitors: distribution by segment



"Capacity utilization at in-patient facilities is one of the biggest problems".

Representative of a medical centre

The issue of the expansion of the range of medical services is considered in more detail in the section entitled "Activities of medical organizations: projects, investments and key problems".



More intense price competition

44% of those surveyed, predominantly in the corporate and mass segments, feel price competition on the medical services market, noting, as in the previous study, dumping by small medical centres and more competitive pricing at state clinics.

Other price competition methods identified by clinics include promotions, low prices for initial consultations, attraction of clients through coupon sites and the maintenance of fixed prices for insurance companies on the VMI market. At the same time, the respondents noted that all medical organizations operating within the VMI system tried to avoid increasing prices so as not to lose insurance companies to competitors..

Appearance of new competitors

Despite the economic crisis, in 2016-2017 the participants in the study again indicated the opening of new clinics as one of the main trends on the market. The respondents observed interest shown in the Russian market by foreign investors, the opening of specialized clinics and the addition of plans for in-patient facilities or maternity wards to existing projects for the construction of medical centres.

“Projects tend to be on a large scale, with clinics of four to five thousand square metres being built”.

Representative of a clinic network.

Some respondents consider that the main problems involved in making large capital investments in the opening of new clinics, particularly in the regions, are the need to provide a new clinic with a sufficient flow of patients and the shortage of staff, since, as they see it, “good doctors are already employed”. As a result, doctors from state institutions are often employed on a part-time basis in order to address the staffing problem.

Strengthening/weakening of competitors

On the subject of the strengthening of competitors, respondents noted both organic growth of companies through the opening of new clinics, efficiency improvements and development of customer service and inorganic growth of certain large players. They also pointed to the strengthening of state institutions, particularly in the area of high-tech medical care and paediatrics (the planning of new perinatal centres).

As regards the weakening of competitors, over 20% of participants in the study observed that small non-network clinics were non-viable and would be forced to close owing to their narrow specialization, difficulties in attracting and retaining qualified doctors and the need for significant investments in order to meet new legislative requirements (such as the transition to online cash tills and electronic sick leave certificates, the data protection law, etc.).

Other factors identified by clinics as weakening competitors were excessive dependence on insurance companies or, on the contrary, a lack of insurance patients among a clinic’s clients, organizational and financial problems, the absence of well-established partnerships with doctors, underutilization of facilities and incentive schemes used by some competitors whereby the amount of doctors’ remuneration was linked to revenue and volume of services provided.

Involvement in PPP projects

The level of awareness among market players of PPP projects being carried out in the healthcare sphere was found to have increased compared with the preceding year - this trend was noted by a third of respondents.

At the same time, the surveyed companies differed in their attitudes to such projects: some clinics said that there was a definite movement towards PPPs, especially in the regions, and that private medical organizations were increasingly being drawn into the CMI system. Others pointed out that projects carried out were mainly founded on private investment and were “notional PPPs”; it was too early to judge how successful they were.

Issues relating to the participation of respondents in PPPs are considered in more detail in the section entitled “Influence of the state on the activities of medical organizations”.

Market consolidation

30% of respondents that the trend towards consolidation is still in evidence, but they note that it is more characteristic for network players, which thereby expand their presence in existing regions of operation or move into new markets.

Approximately the same number of participants answered that they saw no noticeable consolidation of players, especially in the regions, since “only a few companies are able to consolidate”.

Other trends

Some respondents (11%) pointed to the development of medical tourism, including the attraction of patients from the regions and the redirection of the flow of Russian patients from Israel, Germany and other countries in narrowly specialized fields (oncology, cardiology, et al.). However, the flow of medical tourists is not generally identified by clinics as representing a separate area of practice, but rather as a by-product of routing within a network or the presence of distinguished doctors at a clinic.

Other trends relating to competition on the medical services market noted by participants in the study include:

- ▶ growth in competition from medical aggregators, which redirect patients to more affordable but less popular clinics (the respondents are of the opinion that significant investments are now being made in the development of such services);
- ▶ increased efforts by medical organizations to grow their VMI client base and promote services in order to attract private individuals;
- ▶ telemedicine projects carried out by competitors;
- ▶ use by some private and state clinics of “grey” payment schemes in settlements with employees and patients.

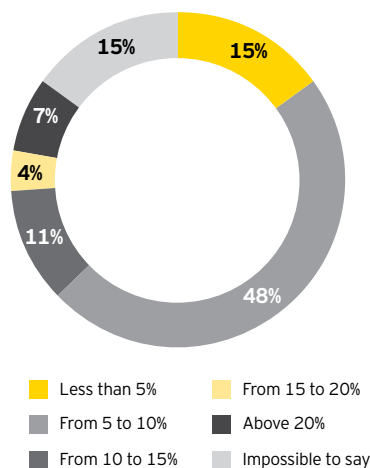
Market growth forecast and factors

As in the last survey, one half of respondents maintain a conservative assessment of the growth rate of the medical market, estimating it at 5-10% per year. A little over 20% of medical organizations predict a high growth rate (more than 10% per year), while 15% expect slow growth (less than 5%) or believe that the market will not grow. 15% of participants in the study found themselves unable, based on the current situation on the medical services market, to give a quantitative assessment of its development prospects.

Some respondents take the view that the highest growth rate will be observed in the in-patient field of medical care and in the areas of laboratory diagnostics, rehabilitation and IVF.

Figure 19

Predicted growth rate of the commercial medicine market in 2017-2020



Some participants in the study noted that in Moscow demand was stagnating against a background of ever-increasing supply of medical services, making it difficult for the market to grow, in contrast to the regions, where demand for good-quality healthcare provision was far from saturated.

It should be pointed out that the respondents were not united in their opinions on the drivers of the development of the private medicine market. 22% of participants in the study believe that growth will come solely from inflation and price rises for medical services which are largely due to increased labour costs faced by medical organizations.

Other organizations believe that steep rises in prices for medical services should not be expected given the high level of price competition. Most respondents view the increase in the number of patients at commercial clinics, including as a result of their migration from state healthcare institutions, as the main driver.

Factors in market growth

More than half of the participants in the study identified current problems in the state system of healthcare provision as the main factor in the development of the private medicine market:

- ▶ cuts in funding to, and reduction of the number of, state healthcare institutions;
- ▶ cuts in services provided under CMI and reduced accessibility of high-tech medical care;
- ▶ low standard of medical care, partly due to cuts in the number of doctors and medical personnel;
- ▶ problems in obtaining medical services when needed, and low standard of service;
- ▶ introduction of an ever greater number of paid medical services (for example, the transfer of laboratory tests to private clinics).

For these reasons the respondents expect further growth in the number of patients migrating from state to commercial medical institutions and expect that the public will become accustomed to paying for medical services. Opinions were also expressed to the effect that the reduction of the number of state healthcare institutions will lead to the adoption of the CMI+³ system and the development of telemedicine services at private clinics for inhabitants of remote regions.

At the same time, around 10% of clinics said that they did not expect a mass migration of compulsory insurance patients into the private sector owing to low effective demand.

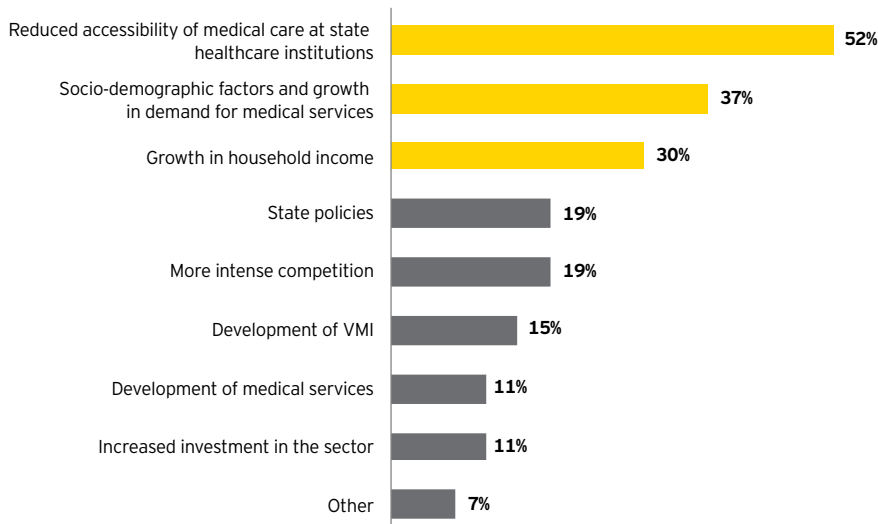
“The number of private patients will grow despite income stagnation, because patients are moving away from state clinics”.

Representative of a clinic network

³ A supplementary insurance system whereby patients may officially pay extra for particular medical and follow-up services which are not covered by the CMI programme

Figure 20

Growth factors for the paid medical services market



37% of those surveyed believe the growth of the medical services market will be aided by socio-demographic factors, including in particular:

- ▶ increased life expectancy and an ageing population;
- ▶ trends in favour of healthy lifestyles and consequent demand for preventive medicine;
- ▶ growth in demand for good-quality medical services and willingness of patients to pay for comfort;
- ▶ public health problems, including as a result of environmental factors and the collapse of the Soviet system of compulsory check-ups and occupational health examinations.

The greatest health problems are generally observed in patients over the age of 40, who are a source of effective demand. According to one participant in the study, "average bills for patients over 40 years old are one and a half times bigger than for younger patients".

30% respondents said that the paid medical services market will grow as the macroeconomic situation in the country as a whole/the region of operation of a clinic improves, real household incomes grow and living standards rise.

Almost 20% of participants in the study believe that the development of commercial medicine will be affected by aspects of state policy, such as:

- ▶ the implementation of PPP projects in the medical sphere;
- ▶ tax breaks for private medical institutions;
- ▶ state regulation, particularly in the areas of compulsory and voluntary medical insurance, telemedicine, etc.;
- ▶ the acquisition of services from private medical organizations via the CMI system where state healthcare institutions do not have the necessary equipment/skilled staff (for example in the case of complex and expensive diagnostic services such as PET/CT).

Respondents were generally of the opinion that in the context of healthcare funding cuts the state understood the need to take measures to encourage the development of private medicine to ensure the population has adequate access to medical services.

At the same time, state healthcare institutions are themselves entering the paid medical services market, installing modern diagnostic equipment and developing narrowly specialized fields (e.g. in oncology).

"The paid services market will grow given that state medical organizations are starting to play an active part in it. Every polyclinic or hospital has either already entered the private medicine market or is preparing to do so".

Representative of a clinic

19% of respondents are of the view that stronger competition from state clinics will be a factor in the development of the commercial medicine market in the next few years.

15% respondents expect market behaviour to be affected by changes in the VMI segment: the reduced availability of certain services through insurance arrangements forces patients to seek paid medical care instead. At the same time, some respondents believe that the insured healthcare market in Russia has prospects for growth since it is still at an early stage of development (compared, for example, with Thailand or the UAE).

11% of participants in the study said that market growth would be paid by the expansion of the range of medical services offered and the development of high-technology medicine, as well as the trend in favour of multidisciplinary medical centres.

The same number of those surveyed identified further investment in the sector by Russian and foreign investors as a factor in the development of the market.

Other factors indicated by the respondents include:

- ▶ increased market consolidation;
- ▶ the possible introduction of licensing of doctors, which would lead to an increase in the number of private practitioners and the development of fields such as psychotherapy, dietetics and osteopathy.

Influence of the State on the Activities of Medical Organizations



Participation in the compulsory medical insurance system

Municipal polyclinics have been officially permitted to provide paid medical services since 2013, and respondents continue to differ in their opinions on this issue.

Most of those surveyed believe that this policy has a negative impact on state medicine. Services are starting to be provided on a paid basis, making them unaffordable for a large part of the population, while the quality of provision is not improving. There is still a shortage of specialized doctors, and healthcare institutions are inefficiently organized (for example, "windows" arise during the working day). Nevertheless, participants in the study have noted on more than one occasion that the choices made by the state on healthcare will give a palpable boost to the development of private medicine thanks to the following factors:

- ▶ the reduced availability and lower quality of services under the CMI system will make patients more likely to turn to private healthcare institutions for outpatient care;
- ▶ the transfer of some CMI care provision to private clinics will enable the state to provide outpatient and high-technology services to the public while enabling private clinics to attract new patients and make a profit.

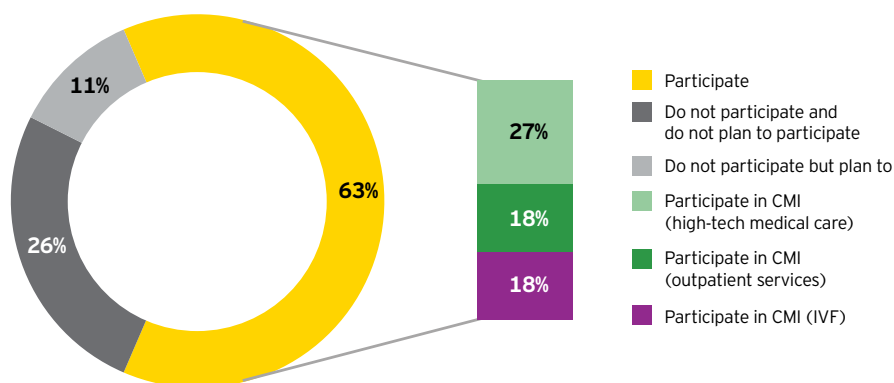
Medical organizations may participate in the provision of various types of CMI-based medical care. They may provide outpatient polyclinic services to the public under a capitation system, participate in the provision of high-tech medical care (e.g. conducting PET/CT diagnostics or complex surgical operations) and provide IVF services.

On the whole, participants in the survey consider that it is not economically worthwhile for a private healthcare institution to provide CMI outpatient services, since current state tariffs for this type of medical care not only make it impossible to earn enough, but do not even fully cover the cost of providing services.

For this reason, many of those surveyed are of the opinion that co-operation with the state under the CMI system is only worthwhile when it comes to providing high-tech medical care or IVF services.

Nevertheless, the number of clinics which provide CMI outpatient services despite their unprofitability for medical organizations proved to be equal to the number of clinics which provide IVF services (18% of those surveyed in each case). IVF remains the most popular type of CMI-based service among private clinics (27% of those surveyed).

Figure 21
Participation of clinics in CMI by type of services



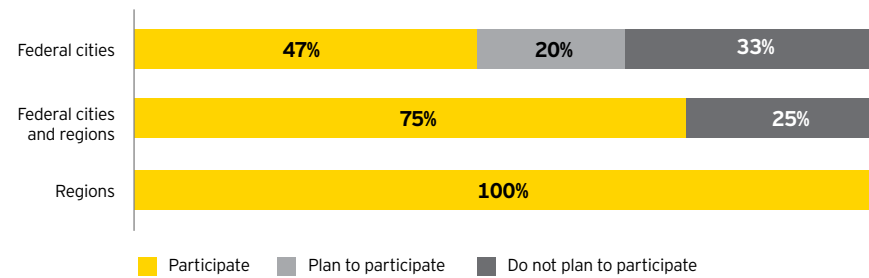
All clinics surveyed which operate in the regions (11% of the total number of respondents) already take part in the CMI system and most commonly provide high-tech care and IVF services.

The proportion of clinics which do not participate and do not plan to enter the CMI system is highest (33%) among medical organizations which operate only federal cities (federal cities) (56% of all clinics). Such clinics likewise most commonly provide high-tech care and IVF services. However, some respondents had difficulties in obtaining quotas for these types of medical care in 2016-2017. They observed that they engaged in outpatient services under CMI only in order to enter the high-tech medical care and IVF market, as providing polyclinic services under a capitation system is unprofitable, unlike in the case of high-tech care and IVF services.

Premium segment clinics participate or plan to participate in the CMI healthcare system only as far as the provision of high-tech care or IVF services is concerned. Representatives of this segment do not consider providing outpatient services owing to the fact that their own tariffs do not correspond to CMI tariffs set by the state.

Among corporate segment clinics the proportion of those participating in the CMI system is lower than in the premium segment. Moreover, the proportion of clinics not wishing to enter the CMI system is highest in this segment (36%). The overwhelming majority of representatives of this segment provide or would like to provide high-tech medical care or IVF services. Members of the corporate segment noted that quotas were too small (for the provision of high-tech medical care), state tariffs had fallen and inspections and fines had increased, which made it unlikely that they would be able to earn a profit from participation in the CMI system.

Figure 22
Distribution of clinics participating in the CMI system by geographic location

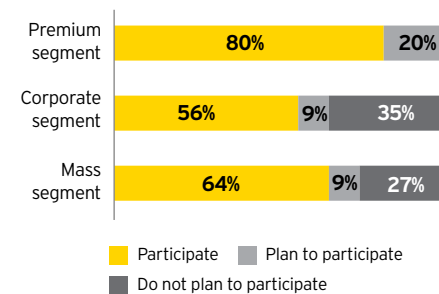


The mass segment has a greater number of clinics providing outpatient services under the CMI system. Those surveyed note that offering such services makes it possible to attract and retain new patients without significant advertising costs. Nevertheless, some respondents observed that providing these types of services is not beneficial for clinics at present, since the number of enrolled patients is well below the critical level needed to make participation in CMI profitable. For this reason some clinics view the provision of polyclinic services as a project for the long term. Around a quarter of surveyed mass segment clinics which opted not to participate in the CMI segment attributed their decision to low tariffs, unclear rules of play on the market and uncertain prospects.

“Providing outpatient services under CMI is worthwhile if the number of enrolled patients exceeds 10,000”.

Representative of a clinic network

Figure 23
Distribution of clinics participating in the CMI system by segment



In all, 11% of those surveyed expressed the intention to participate in the CMI system in the longer term. The majority of medical organizations planning to start providing services under CMI (57%) are considering providing high-tech medical care. Around a third of participants in the survey would like to engage in IVF, and only 14% are looking at the outpatient segment. The study showed a persistent trend: the majority of clinics which expressed the wish to participate in the provision of high-tech medical care were also considering providing IVF services, but were opposed to providing polyclinic services. Conversely, those considering participation in CMI in terms of providing polyclinic services were not considering providing high-tech medical care or IVF services.

On the whole, as in the last study, the problems and limitations of the participation of private clinics in the CMI system remained as follows:

- ▶ low CMI tariffs which do not cover the cost of providing services given the current numbers of patients in some regions;
- ▶ small volume of state orders and short-term contracts;
- ▶ difficulties (e.g. of an administrative nature) in obtaining quotas for high-tech medical care and IVF;
- ▶ increases in inspections and fines based on results of services provided;
- ▶ unclear rules of play and uncertain prospects for development on the market.

Participation in PPP projects

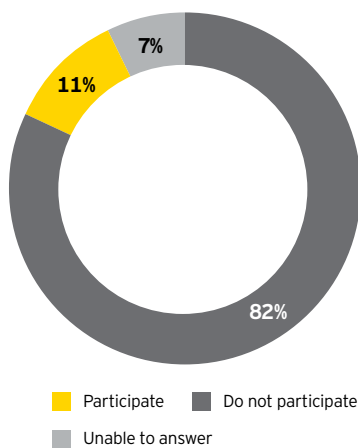
The survey indicated that 82% of private clinics do not participate in public-private partnership projects. This figure has increased compared with the last study, in which 65% of surveyed clinics answered that they were not involved in such projects.

Some respondents observed that they had made multiple attempts at participation in joint projects with the state, but these had not been successful owing to deficiencies in the legislation.

PPP projects in which organizations are involved tend to be focused on the creation of laboratories, rehabilitation and oncological centres and general medical practice centres.

22% of surveyed clinics which did not participate in PPP projects planned to do so in the near future. The most popular objectives of co-operation between private medicine and the state are the creation of medical institutions under concession terms and telemedicine projects. The remaining 78% neither participated in such projects nor intended to do so. The main reasons given by private clinics for not entering into projects with the state were lack of initiative from the state and the expected low efficiency of such projects.

Figure 24
Participation in PPP projects



“The main problem with PPP is the uncertain nature of the result. Until fair conditions of participation are established and clear requirements are laid down in law, we are unwilling to enter into such arrangements”.

Representative of a clinic network

None of the surveyed clinics operating in federal cities are involved in PPP projects, and only 14% of the respondents are looking into this possibility. Some observed that there is no need for such projects in Moscow. However, the majority of those surveyed consider that positive changes are bound to happen in the area of PPP. Cuts in state healthcare expenditures mean that the state will be forced to develop co-operation with private medicine. However, many believe that it is too early to speak of any major progress being made - on the Moscow market it is all at an embryonic stage, only individual elements of PPPs exist, and internal changes are taking place. This is due to the inadequate regulatory framework and the lack of experience in this area.

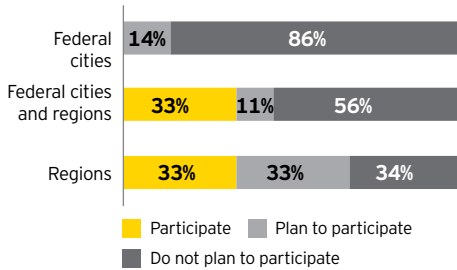
“The state understands that there is a problem with decreasing access to state medicine and is encouraging the development of private clinics, including by means of PPP projects, with varying degrees of success”.

Representative of a clinic



Figure 25

Distribution of clinics involved in PPP projects by geographic location



Organizations which operate in the regions (including those operating in both federal cities and the regions) are more actively involved in joint projects with the state. Some surveyed clinics which do not participate in PPP projects at present have made attempts to do so, but their plans failed to come to fruition. The respondents attributed this to reluctance on the part of relevant ministries and concluded that the creation of PPPs was not a priority for a particular region. Others, on the contrary, referred to the high potential for the development of PPP arrangements in the regions. They pointed to the large number of PPP projects being carried out in the Kaluga, Samara and Vladimir Provinces.

“There is real movement in the regions as far as PPPs are concerned. There are investment programmes and whole medical clusters based on PPP with very aggressive plans for development”.

Representative of a clinic network

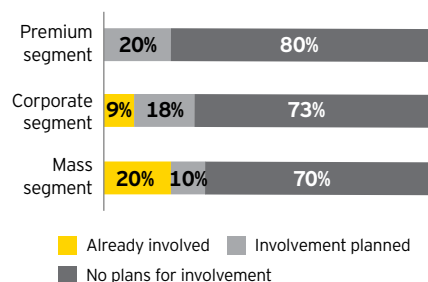
“Flexible policies in the regions are bearing fruit. There are cases where our clinic is the only one in a particular region. In that case we either hand our building over to the state or take on the whole of the state order”.

Representative of a clinic network

A breakdown by segment revealed that mass and corporate segment clinics are involved in PPP projects. In the premium segment 20% plan to begin co-operation with the state in the near future. However, the great majority of clinics in all segments have no current plans for involvement in PPP projects.

Figure 26

Distribution of clinics involved in PPP projects by segment



The respondents identified the following problems associated with the development of PPP:

- ▶ long periods spent on resolving legal issues, inadequate legislation;
- ▶ distrust on the part of private clinics: they consider it possible that the state might not fulfil its obligations;
- ▶ lack of initiative on the part of the state;
- ▶ low economic efficiency of PPP projects.

Important state measures which affected the activities of medical organizations during 2016 and the first half of 2017

Almost half of the participants in the study (45%) consider that the state has not carried out significant measures which affect the activities of their medical organizations⁴. Many answered that only internal changes in state healthcare are taking place at present, which do not have a significant impact on private healthcare.

Nevertheless, a number of clinics indicated that state policies had had some effect on their activities. The most significant measures identified by the respondents were as follows:

- ▶ the attraction of private clinics into the CMI system (the initiative began in 2014);
- ▶ profits tax relief (0%) and reduced rate of Pension Fund contributions (22%) until 2020;
- ▶ provision of paid services at state clinics;
- ▶ licensing to conduct clinical trials;
- ▶ law introducing electronic sick leave certificates;
- ▶ changes in rules governing the training of doctors (abolition of internships);
- ▶ stricter requirements for the storage of personal data (2017).

Many of these measures are not new, but the respondents emphasised that they still have an impact on the activities of medical organizations.

“We don't know how we will cope if personal tax goes up to 22% instead of 13% and social contributions are increased. Smaller players will be forced out straight away”.

Representative of a clinic network

⁴ Опрос проводился до принятия Закона о телемедицине.



The most important step taken by the state in the opinion of 21% of the respondents was the attraction of private clinics into the CMI system starting at the beginning of 2014.

10% of participants in the study pointed to the positive effect of the profits tax relief and reduced rate of Pension Fund contributions currently in effect.

The participation of state clinics in the provision of paid medical services was identified as a significant step by 7% of the respondents.

The federal law on electronic sick leave certificates came into force (on 1 July 2017) on the wave of the inclusion of hospitals in the unified state information system. Under that law, Russians may have a sick leave certificate drawn up in paper form or electronically. Electronic certificates are generated within the information system and signed with an

electronic signature, after which they are sent to the Social Insurance Fund. A patient which has obtained such a certificate does not need to bring a sick note to work. Some participants in the study believe that this development will lead to changes at clinics.

Private clinics may now conduct clinical trials after obtaining accreditation. Some respondents observed that this was an important step in the development of research in private medicine.

Some respondents pointed to the abolition of internships for medical school graduates in 2016 as a factor in their staffing problems. In their view, this may have a negative impact on the quality of medical staff, and consequently on the standard of medical services. Many respondents also pointed to the problem of the absence of personal liability for doctors.

Representatives of a number of clinics noted the impact of the entry into force of the Moscow Healthcare Department's Order No. 944 of 2 October 2013 "Concerning Approval of the Rules for the Provision of Paid Services to Citizens and Legal Entities by State Organizations of the Moscow Healthcare System". The respondents stated that the lowering of the tax burden with respect to social fund contributions was conducive to the development of private medicine.

Other respondents observed that amendments to the data protection law meant that data processing and protection now required greater investment.

Activities of Medical Organizations: Projects, Investments and Key Problems



Projects carried out in 2016 and the first half of 2017

Over 45% of surveyed medical organizations emphasised that they had carried out projects in response to market requirements and changes in demand for medical services. The most common development objectives in 2016 and the first half of 2017 were expanding the range of medical services and improving operating efficiency.

Projects carried out in the premium, corporate and mass segments

Projects aimed at expanding the range of medical services were identified as the most important by the majority of premium and corporate segment clinics, and to a lesser extent by mass segment clinics. The respondents stated that these projects were prompted mainly by the endeavour to provide as many medical services as possible in order to attract new and retain existing patients.

73% of clinics in the premium and mass segments and 64% of those in the corporate segment engaged in efficiency improvements during the last eighteen months. Factors indicated by respondents as prompting them to undertake this type of project included the need to change the system of personnel management, optimize expenses and raise the quality of medical services.

Figure 27
Projects carried out at medical organizations in 2016-2017

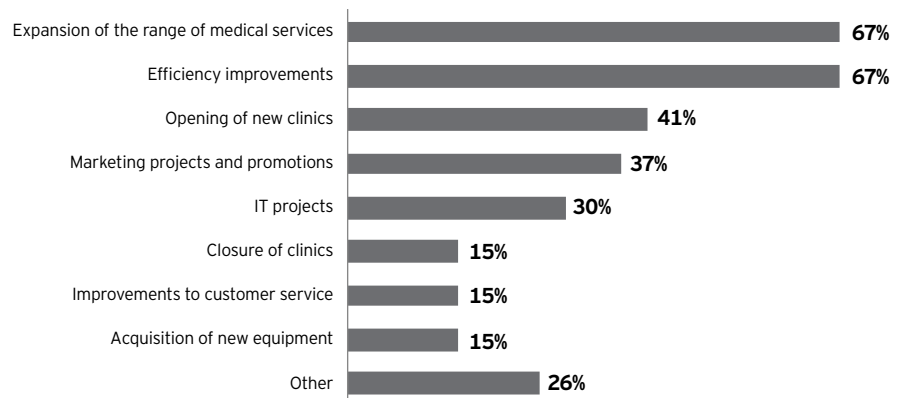
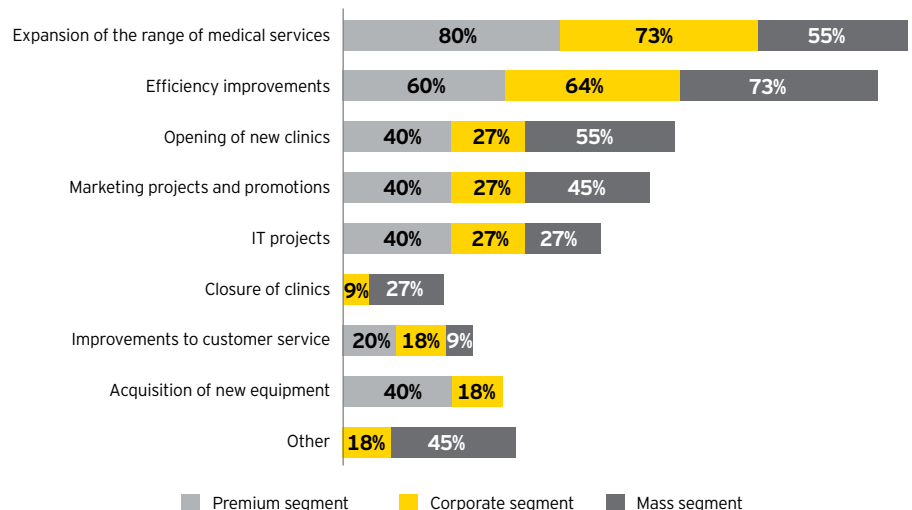


Figure 28
Distribution of projects carried out at medical organizations by segment



It is interesting to note that the opening of new clinics was the most popular development objective for the mass segment, where investments were aimed at launching relatively small medical centres. At the same time, the premium and corporate segments are interested mainly in the opening of large medical centres requiring significant capital investments. In this regard, it is in the mass segment that the highest incidence of closures of inefficient network clinics was observed in 2016 and the first half of 2017.

It was also mass segment medical organizations which were mostly likely to have carried out marketing projects and activities aimed at increasing the number of patients and raising the appeal of medical services offered by clinics. It is worth noting, however, that projects aimed at improving customer service were less common for those clinics than for premium and corporate segment medical organizations, whose patients generally have higher expectations with regard to quality of service.

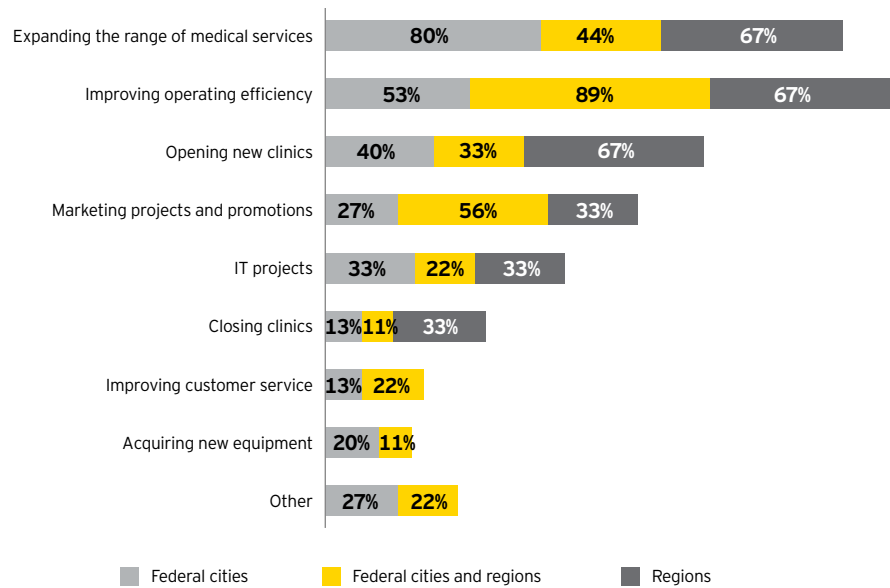
During the last eighteen months 40% of premium segment clinics carried out IT projects, which were often inextricably tied to improvements in customer service. 27% of respondents in each of the corporate and mass segments reported having projects in this area. Projects involving the acquisition of new equipment were carried out predominantly in the premium and corporate segments.

Projects carried out in federal cities and regions

Over the last eighteen months clinics located in federal cities have been engaged primarily in expanding their range of medical services (80% of clinics), endeavouring to retain patients. Over a half of respondents also conducted efficiency improvement projects and another 40% opened new clinics. Only clinics operating in federal cities acquired new high-cost equipment or upgraded their facilities in 2016 and the first half of 2017.

Almost of 90% of networks located in both federal cities and regions carried out projects aimed at improving operating efficiency, and only 44% (by contrast with clinics located only in federal cities) expanded their range of medical services. This is due to the fact that those clinics often offer a full range of services under existing licences. More than half of healthcare institutions in this category

Figure 29
Distribution of projects carried out at medical organizations by location



conducted marketing projects aimed at attracting and retaining patients.

An equal number of regional medical organizations (67%) engaged in opening new clinics, expanding their range of medical services and improving operating efficiency. Unlike medical organizations present in federal cities alone and in federal cities and regions, regional clinics did not concern themselves with improving customer service. This suggests that patients in the regions are less demanding at this stage than those in Moscow and St Petersburg.

Expansion of range of medical services

The results of our last study showed the objective of expanding the range of services in second place among the medium- and long-term development plans of medical organizations: it was indicated by 57% of respondents. This year the same objective was important for 67% of surveyed medical organizations.

The most popular expansion area was the development of in-patient facilities, which was indicated by 28% of respondents. This might involve the opening of a new centre, such as a day patient or full in-patient facility, or increasing the number of beds and extending the range of services provided within existing in-patient facilities (gynaecological surgery, ophthalmology, phlebology, cosmetology, etc.). For some clinics the development of functional in-patient facilities was the consequence of the broadening of areas of expertise: for example, the development of types of surgery requiring long recovery periods



makes it important to offer rehabilitation services.

The second most popular expansion area in the last period was paediatrics, which was indicated by 22% of respondents. This includes the opening of paediatric wards in existing clinics and separate paediatric clinics. Many medical organizations note good financial results from launching services in this field.

The development of new methodologies and programmes and projects in the area of telemedicine and IVF received the same number of responses - 17% of respondents indicated these as new areas of medical services.

On the subject of new methodologies and programmes, the participants in the survey mentioned prenatal care, check-ups and new methodologies in the area of diagnostics and surgery. The respondents said that being examined in a private clinic means that a patient receives more comprehensive and accurate information about his health than he would in a district polyclinic, where doctors are poorly skilled and examinations are carried out in a perfunctory manner.

11% of clinics indicated that they had expanded into cosmetic medicine. It is curious in this regard that the respondents do not believe this to be a profitable business area, and indicate that the purpose of launching it is to retain women patients, who make up the majority of their visitors.

39% of respondents named other areas of services, including:

- ▶ physiotherapy and rehabilitation;
- ▶ stomatology;
- ▶ health resort referral;
- ▶ ophthalmology;
- ▶ osteopathy;
- ▶ functional centres;
- ▶ forensic medicine;
- ▶ occupational medicine, etc.

Some clinics noted that the development of new services was inextricably linked to the availability of doctors with the required specialization, and that if a qualified doctor became available the clinic attempted to promote the services in question.

Improvement of operating efficiency

67% of respondents actively carried out internal efficiency improvement projects over the last eighteen months, and most clinics conduct them on a continuous basis.

Clinics manage expenditure, optimize the work of their help-desk and reception services and train doctors to handle patients efficiently. Some clinics, primarily those that are part of a network, focus on introducing standards of service and medical care and on implementing management centralization projects. Other respondents stated that they monitored and worked on particular patient flow indicators.

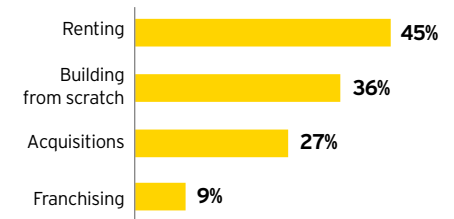
Opening and closure of clinics

In our last study 61% of respondents said that they had plans to expand their network in their current regions of operation, while 35% planned to expand into new geographical areas.

In 2016 and the first half of 2017 almost 40% of respondents opened new clinics within their network.

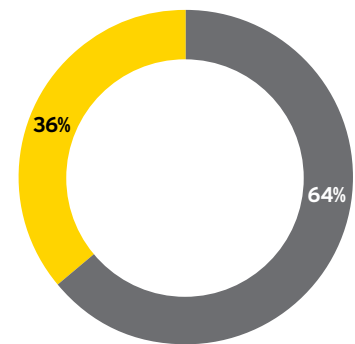
The most popular methods of opening new clinics involved renting premises and equipping them out of the network's own resources. This approach is favoured by around one half of networks which opened new clinics in the last eighteen months. 27% of respondents open them by acquiring existing medical institutions, while 36% build from scratch. The use of franchising is at present the least popular option.

Figure 31
Methods of opening new clinics



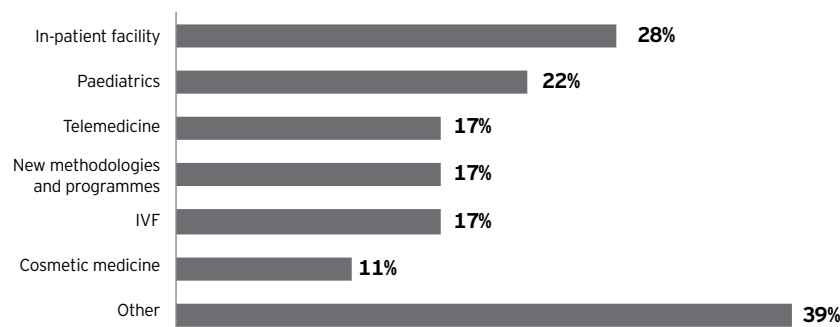
Some respondents said that they would like to open a new network clinic, but the difficult financial situation makes this impossible owing to the high cost of borrowing. 64% of all networks open new clinics only in the regions where they already operate.

Figure 32
Network expansion geography



■ Only current regions of operation
■ Current regions of operation and new regions

Figure 30
Areas of expansion of medical services



Those opening new branches in their current regions of operation are mainly mass segment clinics (more than 70% of all clinics opened) and networks located in federal cities.

Those opening new branches in their current regions of operation and new regions are predominantly corporate segment clinics (just under 70%) and medical organizations operating in federal cities and regions.

Premium segment clinics are not expanding into the regions and have no plans to do so, since they see no effective demand there, and regard the shortage of medical and management staff as being the main problem in opening regional clinics.

“Healthcare in the regions won’t change until the training system changes”.

Representative of a clinic network

15% of respondents closed one or more clinic branches in the last eighteen months. This was primarily due to poor choice of region or clinic location, making it impossible to achieve adequate capacity utilization.

Three quarters of clinics which closed branches belong to the mass segment. Only a quarter of clinics closed were in federal cities, and the rest were in the regions.

Marketing projects and promotions

In 2016 and the first half of 2017, 37% of participants in the survey carried out marketing projects aimed primarily at attracting new patients and increasing visits to the clinic. Many respondents noted the following aspects:

- ▶ reviewing budgets;
- ▶ altering channels for attracting patients;
- ▶ developing own clinic enrolment programmes for private individuals;
- ▶ changes in patient loyalty system;
- ▶ conducting promotions, launching discount schemes, etc.

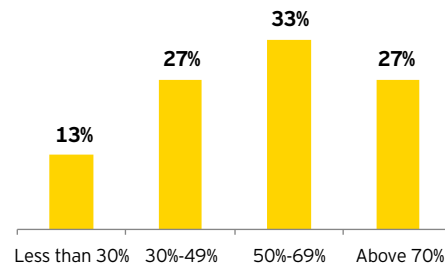
Over 75% of respondents which carried out marketing projects (or three quarters of all participants in the study) believe that one of the key objectives facing their medical organizations at present is boosting capacity utilization and increasing the proportion of patients who make repeat visits (repeat patients).

A large number of respondents provided partial (35%) or full (23%) data on the proportion of repeat patients and the annual average number of visits per patient for 2015 and 2016.

The proportion of repeat patients is over 50% for over 60% of clinics which provided information.

For 56% of respondents the proportion of repeat patients did not change in 2016 compared with 2015.

Figure 33
Proportion of repeat patients in 2016



At the same time, the average number of visits per patient fell in 2016 compared with 2015 at one half of clinics which provided data.

Figure 34
Change in the proportion of repeat patients in 2016./2015

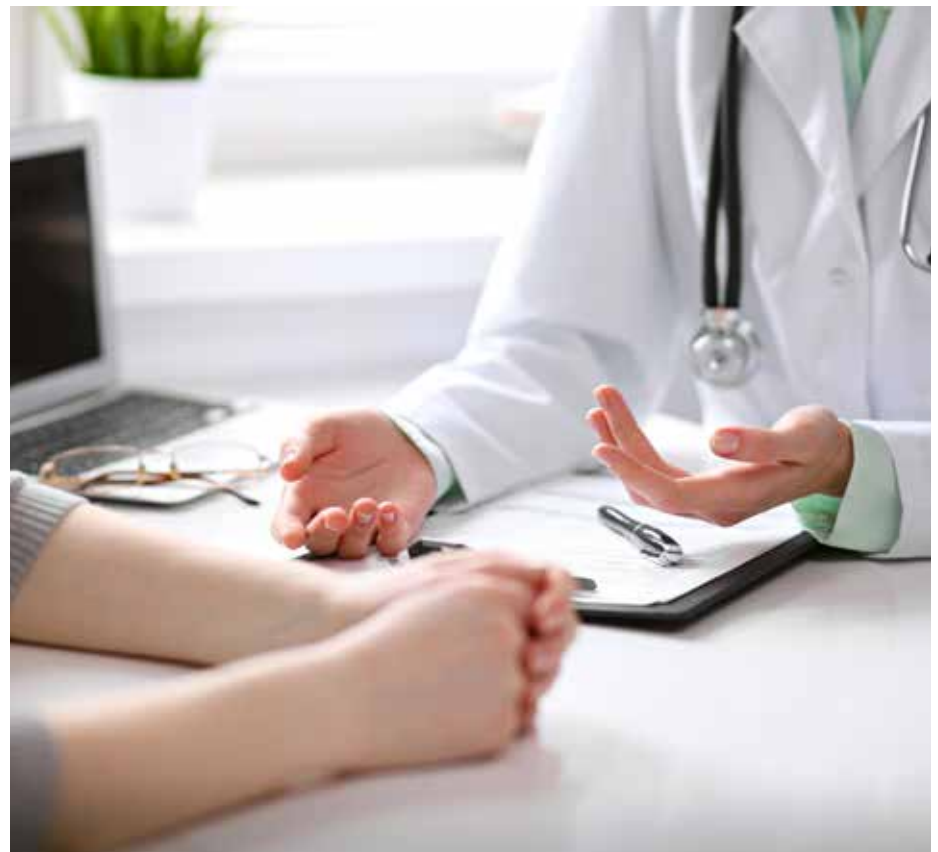
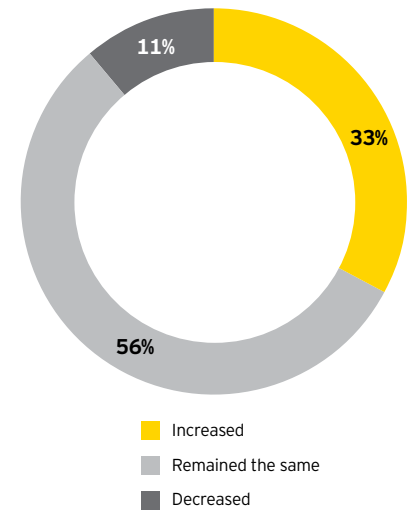


Figure 35
Average number of visits per patient in 2016

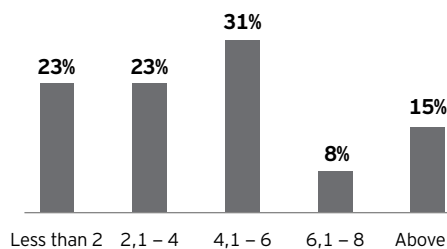
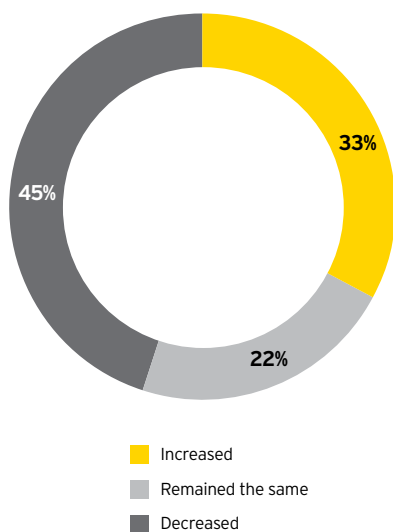


Figure 36
Change in the average number of visits per patient in 2016/2015



IT projects

30% of respondents carried out IT projects in the last eighteen months.

Figure 37
Types of IT projects



Most of those surveyed place emphasis on IT projects in the area of external infrastructure and customer service, including updating their website, launching a mobile application and creating a personal account system. Others indicated internal IT projects such as modernization of clinic management systems, centralization of inter-clinic databases and the creation of data centres.

Improving customer service

15% of participants in the study successfully carried out projects aimed at improving customer service, including:

- ▶ organizing a feedback system and handling patients' complaints;
- ▶ changing the working hours of clinics;
- ▶ launching services, e.g. personal health assistant;
- ▶ training medical personnel in order to increase standards of service, etc.

Upgrading of facilities and acquisition of new equipment

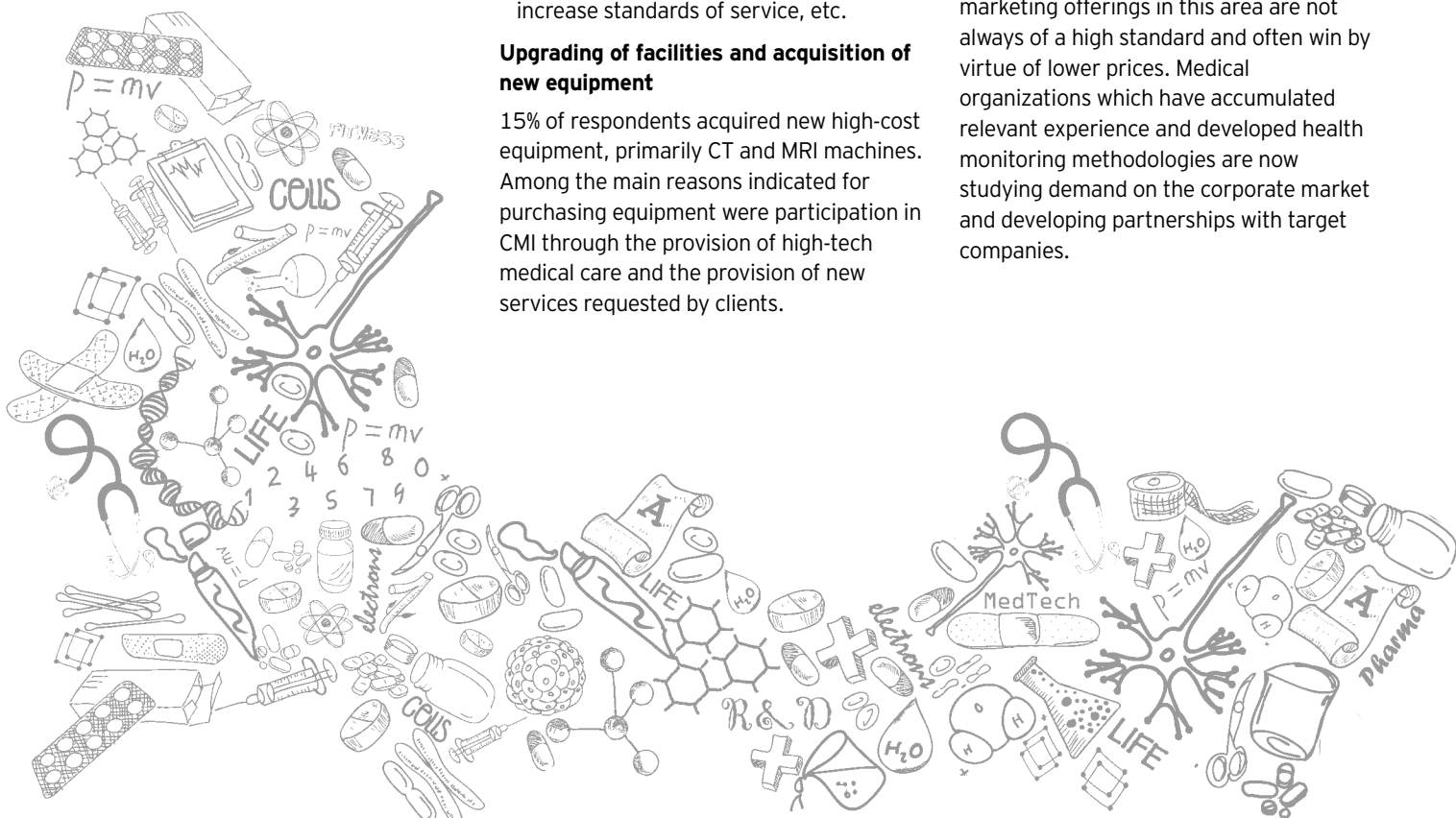
15% of respondents acquired new high-cost equipment, primarily CT and MRI machines. Among the main reasons indicated for purchasing equipment were participation in CMI through the provision of high-tech medical care and the provision of new services requested by clients.

Other

The respondents gave the following examples of other projects carried out during the last eighteen months:

- ▶ B2B projects, including occupational medicine, asset management, quality control, development and sale to other clinics of IT applications;
- ▶ alliances / partnerships with other medical organizations;
- ▶ medical tourism;
- ▶ development of advanced training programmes for doctors.

Many clinics who took part in the study reported involvement in B2B projects, one of the most popular areas being services involving occupational medical examinations for companies whose activities involve occupational risks. The respondents emphasised that existing marketing offerings in this area are not always of a high standard and often win by virtue of lower prices. Medical organizations which have accumulated relevant experience and developed health monitoring methodologies are now studying demand on the corporate market and developing partnerships with target companies.





Development plans up to 2020

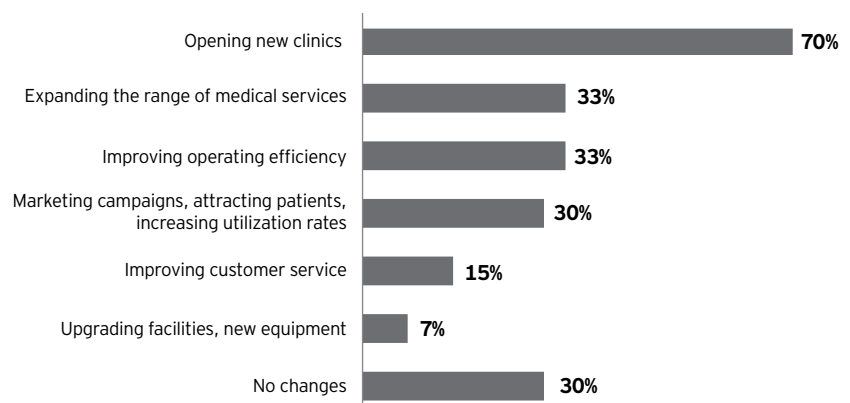
Answers to the question about planned projects hardly differ at all from answers to the question about projects carried out, with the exception of IT projects, which do not figure in the respondents' plans. This is due to the fact that the majority of respondents have already carried out the projects they considered necessary, and everything planned falls in the overlap between IT and improvements to customer service.

The most popular responses to the question about planned medium-term projects were the opening of new clinics (70% of respondents), improving operating efficiency and expanding the range of medical services (33% each) and carrying out marketing activities aimed at attracting patients and increasing capacity utilization (30%). 30% indicated that they did not plan any particular changes in activities.

The majority of those surveyed intended to develop activities within their current region of operation by renting, building or buying new clinics. Some plan to open specialized medical organizations (such as a surgical and rehabilitation centre or a maternity ward), but most favour the development of multidisciplinary centres. Respondents frequently indicated that they had considered the possibility of acquiring certain network players but had pulled out of a deal owing to unresolved disagreements over cost. Representatives

Figure 38

Development plans of medical organizations up to 2020



of such clinics considered that the facilities targeted for acquisition were clearly overpriced.

Many participants in the study observed that their clinics provide a fairly large range of services.

More than half of premium segment clinics plan to open new branches, and another quarter to expand (build new blocks) on their existing site. 60% of clinics intend to set about improving operating efficiency, 40% to expand service offerings and to carry out marketing campaigns, while the same proportion again will carry on working as before.

The most popular answers among representatives of the corporate segment are the opening of new clinics and the expansion of medical services - indicated by 73% and 55% of respondents respectively.

64% of mass segment respondents, like those in other segments, plan to grow their business by opening new clinics and/or expanding on existing sites, 36% plan to carry out marketing projects, 27% intend to improve operating efficiency, while the same number again do not want to change anything. Interestingly, mass segment clinics have practically no medium-term plans to expand their range of services or upgrade their facilities, in contrast to medical organizations in the corporate and premium segments.

Over 70% of clinics located in federal cities plan to open new clinics or expand within existing sites. One third of respondents indicated plans to expand the range of medical services and improve operating efficiency. The same number again said that they did not plan any major changes in the medium term.

Figure 39
Development plans of medical organizations by segment

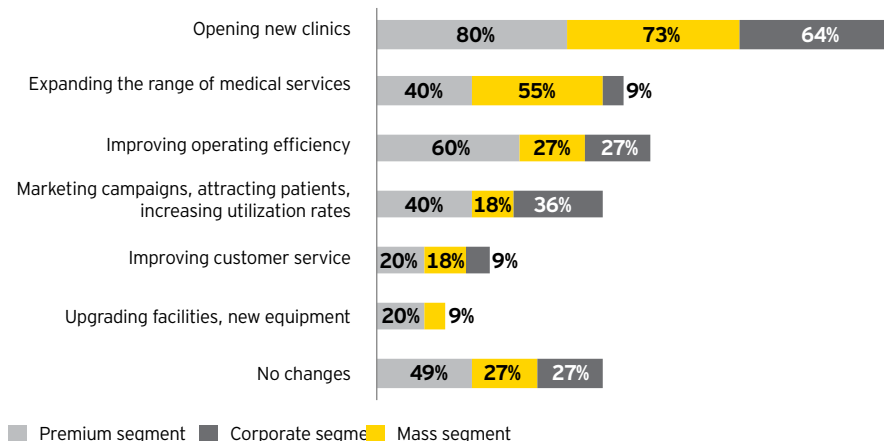
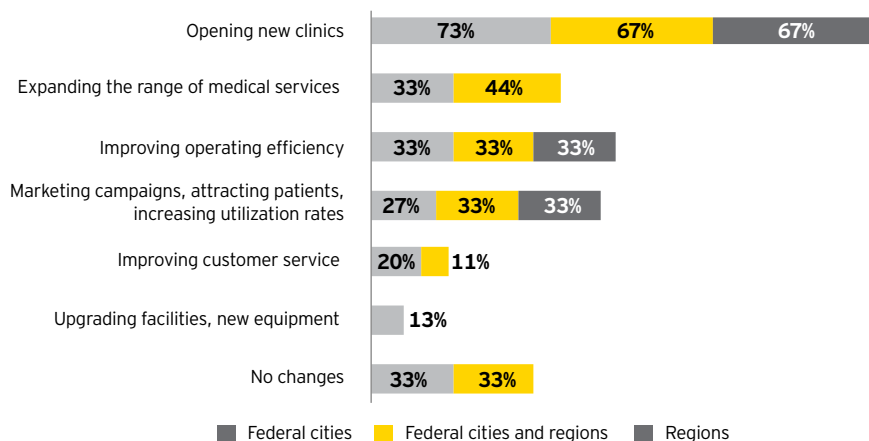


Figure 40
Development plans of medical organizations by geographic location



67% of medical organizations located in federal cities and regions are likewise preparing to open new clinics within their network. Meanwhile 33% of clinics located in federal cities and the regions plan to continue operating as before without any changes. Over 40% of medical organizations indicated plans to expand the range of medical services, and a third indicated marketing and efficiency improvement projects.

The strategy of surveyed regional clinics has three clearly defined strands:

- ▶ expanding networks by opening new clinics – 67% of respondents;
- ▶ carrying out marketing projects and conducting measures aimed at attracting new patients – 33%;
- ▶ improving operating efficiency – 33%.

Opening new clinics

This year 70% of participants in the study asserted that they planned to open new clinics in the medium term. Almost 75% of these plan to open new clinics and 11% both to open new clinics and expand existing clinics (usually by building new units), while the remaining 15% intend only to expand on their existing sites.

Expansion on existing sites was typically the option chosen by clinics located in Moscow.

44% of respondents planning to open new clinics will do so in their current regions of operation, one half are planning development both in their current region and in new regions, while only 6% of participants are only intending to expand into new markets.

Figure 41
Opening clinics / expansion on existing sites

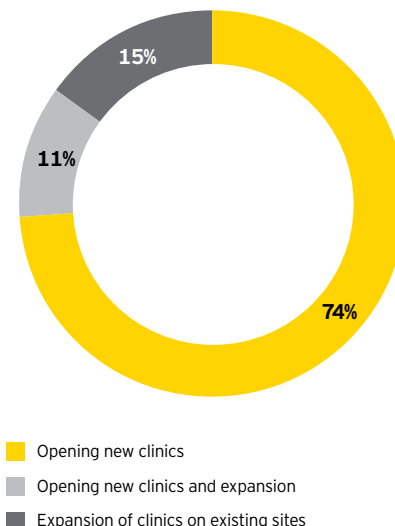


Figure 42
Geography of network expansion

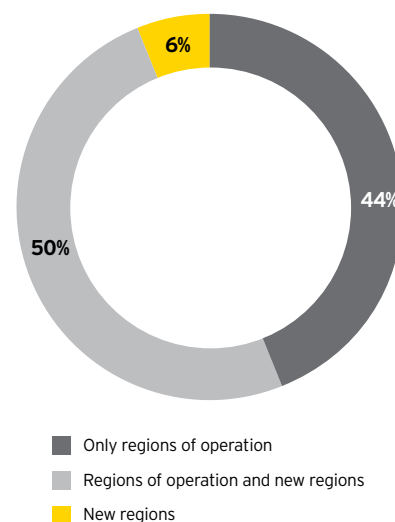
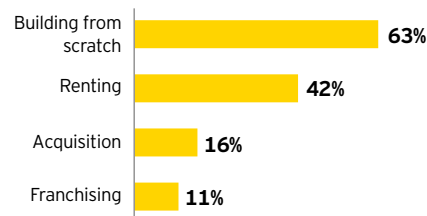


Figure 43
Planned methods of opening new clinics



The most popular approaches to network expansion were building from scratch (over 60%) and renting sites (over 40%). 16% of participants indicated the acquisition of clinics, and only 11% indicated expansion by means of selling franchises.

Expanding the range of medical services

Over 30% of respondents intend to expand their range of medical services in the period up to 2020. Among these, 44% indicated that the expansion would involve telemedicine services. Another 56% of participants plan to open a full adult or paediatric in-patient facility, 33% to launch paediatric services and 22% to strengthen surgical activities and begin offering paediatric surgery.

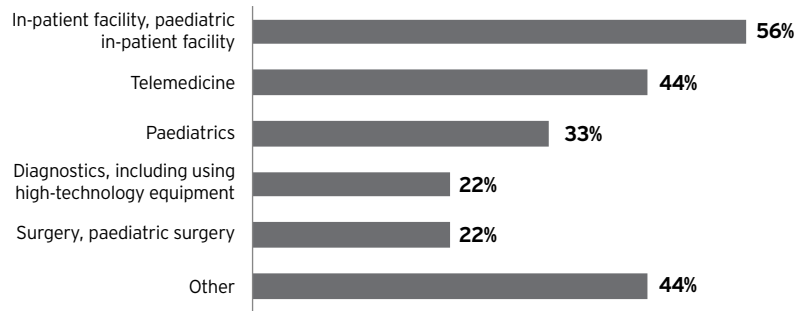
Paediatrics is a popular area of development both in federal cities and in the regions. Many respondents have already begun operating in this field and plan to expand their range of services by developing paediatric in-patient facilities, paediatric surgery departments, etc.

22% of respondents also indicated plans to expand diagnostic services, some of which involve acquiring new equipment. Also indicated were oncology, occupational medicine and medical tourism.

As regards other planned projects (improving operating efficiency, carrying out marketing projects, improving service), they hardly differ at all from those already carried out. The only difference is that some clinics have already carried out such projects over the last eighteen months, while others are only preparing to do so.

There is a trend towards the expansion of B2B services at private clinics. Just over 30% of respondents stated that they planned to strengthen relationships with businesses in the medium term. One half of these mentioned projects involving the management of individual clinics and large medical organizations.

Figure 44
Areas of expansion of medical services



Planned Investments

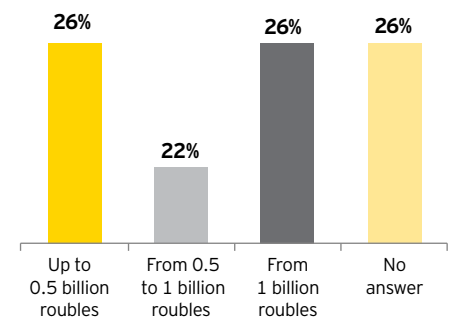
Amounts of investments

Companies vary in their estimates of investments to be made in the period up to 2020. This time there was an increase in the number of respondents (up to 27%) which were unable or unwilling to quantify this indicator. In the last study only 17% of participants declined to answer the question about investments. The respondents identified factors contributing to increased uncertainty, including:

- ▶ instability of the macroeconomic situation;
- ▶ dependence on contract partners and the state;
- ▶ difficulty in evaluating investments in different areas and determining the aggregate amount.

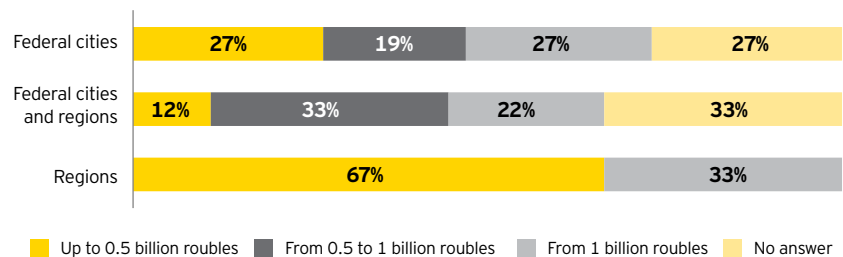
Compared with the results of the last study, in which 39% of clinics indicated plans to invest more than a billion roubles in developing their business, the participants in the current survey show less inclination to invest. At present, only 26% of respondents are willing to make such large investments, while 48% of clinics estimated their planned investments at within 1 billion roubles.

Figure 45
Volume of investments up to 2020



The greatest amount of uncertainty about volumes of future investments was indicated by clinics operating in both federal cities and the regions, owing to difficulties in planning budgets for large-scale businesses. Clinics operating only in the regions generally indicated the lowest amounts of anticipated investments in the period up to 2020, while those operating only in federal cities were fairly equally distributed in terms of planned volumes of investment.

Figure 46
Distribution of investment volumes of survey participants by location



The results of the survey show that the highest amounts of investments planned in the immediate term are in the premium segment. Representatives of the corporate segment mostly declined to answer the question about capital investments, explaining that they were working on different business development scenarios which would require different levels of investment. The lowest amounts of planned investments are in the mass segment. Members of that segment have repeatedly stated that they will not be making any large investments in the near future and are willing to invest only in supporting their current activities.

“We finance projects out of operating revenue and avoid borrowing money”.

Representative of a clinic

Many respondents also noted that they mostly used their own resources to finance investment projects. While last year it was mostly standalone centres that were self-reliant, the self-financing approach has now been adopted both by large network players in federal cities and the regions and by small Moscow clinics. Some participants attributed this to the unwillingness of shareholders to invest money in the business, while others mentioned problems in dealing with investment funds and the high cost of borrowing.

Investment criteria

Participants in the study differed in the criteria they set for their investment projects. The most common criterion was the recoupment period. Representatives of clinics estimate that in commercial medicine that period varies between a year and 10 years depending on:

- ▶ the business format;
- ▶ the investment project;
- ▶ the cost of equipment.

A representative of one clinic expressed the view that an individual non-capital-intensive line of business such as, for example, cosmetic medicine could pay for itself in one year. The majority of respondents consider that the optimum recoupment period in the health industry is three years. Investment in high-cost equipment cannot be recouped in less than three years, while a company may lose money if recoupment takes longer, since additional amounts would have to be spent on maintaining the equipment. Where complex technologies are introduced, such as those needed for endoscopic surgery, the likely recoupment period increases to three-five years. In the case of large investment projects, such as the construction of a hospital centre, the recoupment period may be from 7 to 10 years.

“15 years is too much, but capital investments in this industry are very long-term, which is something that not all partners understand”.

Representative of a clinic.

The majority of participants in the survey (52%) did not indicate a recoupment criterion owing to the fact that different investment projects were planned and management predicted different recoupment periods for each of them.

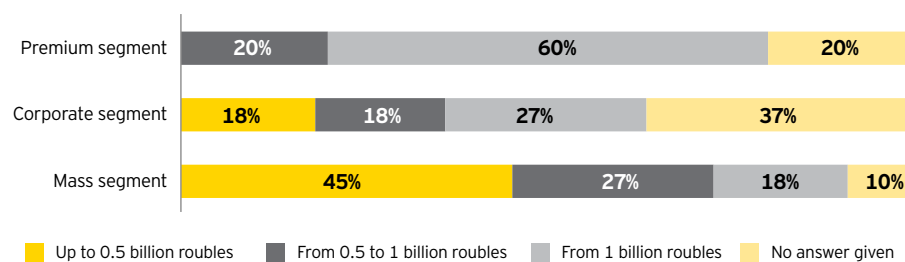
Some indicated internal rate of return (IRR) as one of the criteria for evaluating the efficiency of investments. Premium segment clinics set this indicator at different levels depending on geographic location. They set a lower IRR (around 20%) for the regions and a higher value - around 40% - for Moscow. One representative of corporate segment clinics stated that his company was planning projects with an IRR of over 30%. In the mass segment the target IRR value for some clinics is 23-25%.

Companies planning to expand by acquiring existing clinics identified the following criteria for selecting projects:

- ▶ the geographic location of the new clinic;
- ▶ equipment in place;
- ▶ staff skills;
- ▶ whether there are competitors in the same area;
- ▶ whether the project is in keeping with the company’s current development strategy;
- ▶ profitability over time;
- ▶ full utilization period.

Many clinics, 75% of which were in the mass segment, referred to a lack of financing needed to carry out investment projects, including both internal and borrowed funds. Respondents referred to high rates for bank credit, which make projects less economically viable.

Figure 47
Distribution of investments of survey participants by segment



Yield on past investments

According to the responses of one half of those surveyed, results obtained from past projects met their expectations. This was largely made possible by intelligent decision-making on the part of managers, who took account of adverse macroeconomic factors.

“Having survived two crises, we were ready for anything, and the result was as expected”.

Representative of a clinic network

Interestingly, equal numbers of clinics indicated high and low yields on past projects. Those which consider the yield on investment to be higher than expected attributed to this to successful agreements with suppliers on leasing charges and successful launches of new services (e.g. MRI, paediatrics, etc.). One respondent admitted that opening a new clinic in a region under a PPP arrangement exceeded all its expectations: it is now the best medical centre in the town and makes more profit than the Moscow clinic.

Those participants which indicated a lower than expected yield on projects attributed this to the following factors:

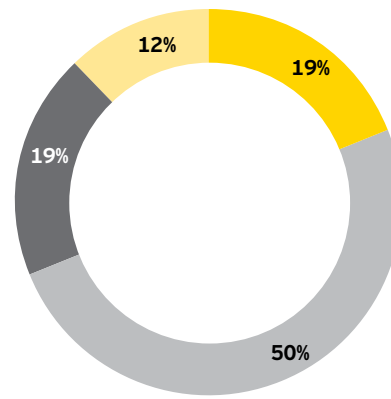
- ▶ reduced consumer spending power;
- ▶ changes in patients' needs;
- ▶ changes in exchange rates;
- ▶ capital investments in projects for which were expected to give yields more quickly.

Many respondents give different assessments of yields from different investment projects. For instance, some clinics experienced significant growth in the field of paediatric services, while hospital centres did less well.

“Some results are above expectations, others below, since it is impossible to make accurate predictions for all projects”.

Representative of a clinic

Figure 48
Yield on past investments



- Yield on past investments higher than expected
- Yield from past investments as expected
- Yield from past investments lower than expected
- No past investments

Current Problems Faced by Medical Organizations

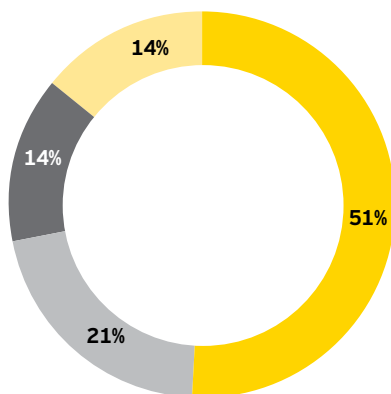
The respondents noted the following problems faced by their medical organizations:

- ▶ staffing problems;
- ▶ problems relating to arrangements with insurance companies;
- ▶ problems relating to patients;
- ▶ external threats.

Staffing problems

Participants in the study observed that, as in the results of the last study, staffing problems remain a key issue in the medical industry.

Figure 49
Staffing problems



- Low skill level of medical personnel
- Lack of managers in the medical industry
- Flow of specialists from neighbouring countries
- Doctors with inadequate communication skills in dealing with patients

The low skill level of medical personnel is the most frequently mentioned staffing problem. This continues to be the most critical problem among those mentioned by the respondents. Many clinics agreed that this is due to a deterioration in the standard of medical education.

“Staffing is a huge problem. Doctors have insufficient skills, the medical education system does not tolerate criticism and students don't know the basics. We spend months looking for specialists in some fields. We work together with medical schools, and the picture is frightening: very few students carry on training, and only a few of those are employable. For the moment, the gaps can be filled with doctors who trained 20 years ago when the standard of education was reasonable. But it's difficult to see who is going to be treating people in 20 years' time”.

Representative of a clinic

Participants in the study have different ways of dealing with these circumstances.

Some respondents observed that good specialists are expensive and it is more economical for a clinic to train its own staff than to look for them on the market. Doctors at such clinics either teach or work together with faculties at Russian medical schools in order to spot students who might be employable in the future. These clinics will certainly have to invest in the training and development of young specialists, but at the same time they can be sure of the quality of staff obtained in this way. Some participants in the study emphasised that training specialists internally provided another important advantage: the clinic would not later have to bend to the doctor's demands for medical devices, equipment, salary, etc. As the respondents put it, “if an organization wants to hire a well-known specialist, it will have no influence over 90% of the cost”: an experienced doctor would lay down his employment demands, which the clinic would be forced to fulfil in order to retain him.

In addition to raising the skill level of doctors, medical organizations also consider it essential to develop their specialists' communication skills, as the process of discussing matters with a doctor is becoming more and more important for patients.

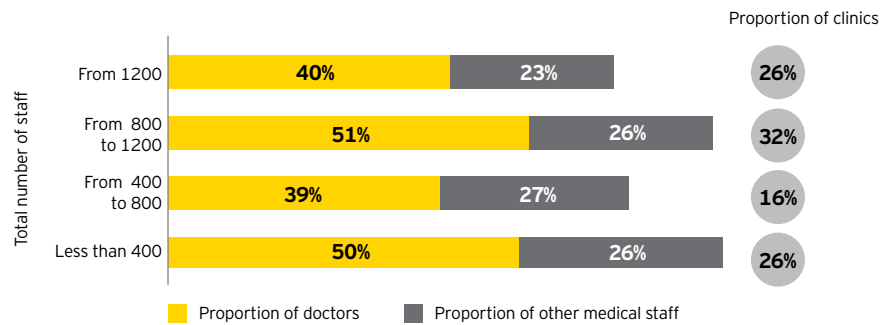
Other participants in the survey take a different approach: they hire high-profile specialists who already have a reputation on the market. It is mostly premium segment clinics that can afford this solution to the staffing problem, as the cost of hiring such specialists is significantly higher than costs associated with developing younger staff. Some participants the study took a negative view of clinics' focus on high-profile doctors, who are used for marketing purposes in promoting medical services.

A no less troubling problem is the shortage of managerial staff in the medical industry.

“The main problem in the medical industry is personnel, and specifically doctors and management. The management problem is becoming increasingly difficult: as with chief doctors, general directors and financial directors, we look all over the country for some managers”.

Representative of a clinic network

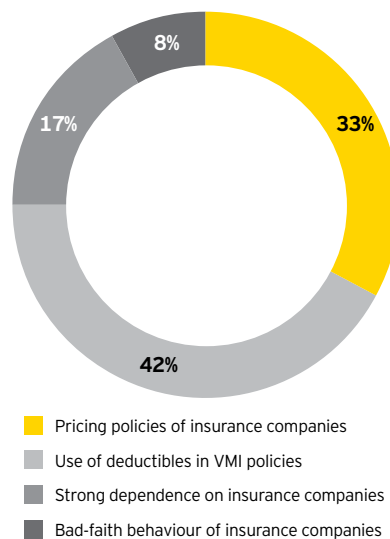
Figure 50
Average number of medical staff at organizations



Problems relating to arrangements with insurance companies

The next category of difficulties encountered by many participants in the study relates to insurance companies.

Figure 51
Problems relating to arrangements with insurance companies



Pricing policies of insurance companies / Use of deductibles in VMI policies / Strong dependence on insurance companies / Bad-faith behaviour of insurance companies

The two problems that most worry participants in the study as regards dealings with insurance companies are pricing policy and the more frequent use of deductible clauses in VMI policies.

Many respondents observed that in recent times (since 2014) insurance companies have begun to demand the inclusion of deductibles in insurance policies, as noted above. This is detrimental to clinics owing to the fact that list prices for

services under a plan with a deductible are discounted. Furthermore, deductibles tend to limit how much patients spend.

A number of clinics stated that insurance companies have demanded the conclusion of long-term contracts with fixed prices, and that they were forced to agree to those terms owing to the absence of other insurers in the region.

“It’s hard to do business with insured healthcare in the regions. In Moscow there is a huge choice of insurance companies, but in the regions there is no one to go to”.

Representative of a clinic network

Some participants see a problem in the strong dependence on insurance companies owing to the significant (over 80%) proportion of VMI patients. Having encountered difficulties in their dealings with insurance companies, clinics felt themselves to be in a tenuous position owing to insufficient patient diversification.

Problems with patients

An equally important area of concern for many clinics was relationships with patients. Participants in the study noted the following main problems:

- ▶ poor health awareness among patients;
- ▶ “patient extremism”;
- ▶ insufficient numbers of patients;
- ▶ fostering of negative attitudes to medical workers in the mass media.

The most frequently mentioned problem was poor health awareness, which is when patients seldom use preventive medicine and do not take good care of themselves.

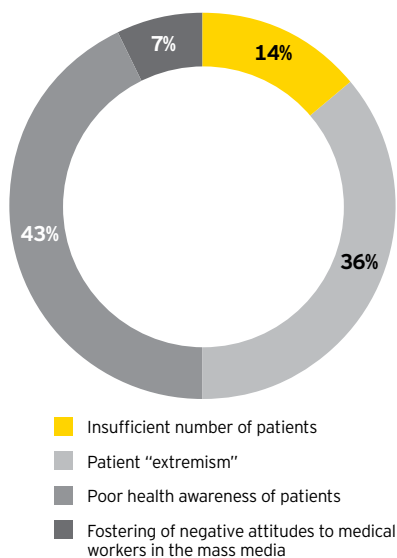
They usually visit healthcare institutions when the need arises, by which time surgical intervention may be needed. Some respondents noted an increase in the provision of emergency medical care and more frequent cases of patients presenting with severe symptoms. The survey participants generally put this down to the Russian mentality.

This problem leads onto the next one, which the respondents often referred to as “patient extremism”. Owing to the fact that ever fewer people use preventive medicine services and rarely visit medical centres, self-diagnosis with the aid of the Internet is becoming more and more popular among members of the public. In addition, clients have higher expectations of the standard of service at clinics and the creation of a transparent and open Internet space enables them to share their experience of visiting a medical organization on social sites and in forums. Sometimes dissatisfied clients go to court, and one large network clinic believes that this is becoming increasingly common.

“Clients leave a lot of reviews on social networks and come to their appointments fully prepared, having read up on illnesses in Wikipedia”..

Representative of a clinic network

Figure 52
Problems relating to relationships with patients

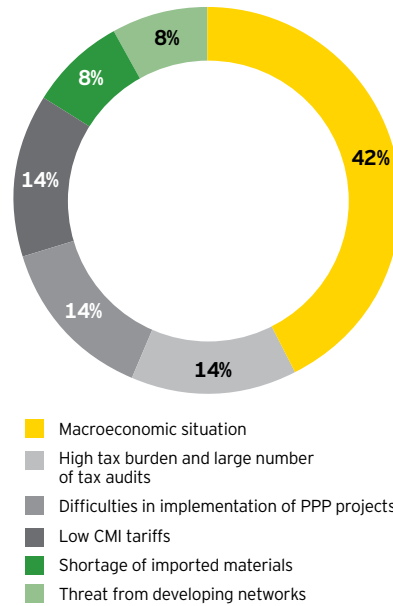


Some respondents also mentioned the problem of negative attitudes in the mass media towards medical organizations and doctors, especially in commercial healthcare, which undermines patient confidence.

External threats

The respondents identified a number of problems which were grouped into the category of external threats.

Figure 53
External threats



Almost one half of respondents noted the negative impact of the macroeconomic situation. They pointed first and foremost to exchange rate fluctuations and to the reduced spending power and changing needs of patients. All this caused a reduction of the average bill amount and quantity of services consumed at a number of surveyed clinics.

In referring to the high tax burden, the participants in the study meant the high rates of social fund contributions. Total social fund contributions currently amount to 30% of labour costs, and that figure could rise even higher after 2020 when there may be an increase in the rate of Pension Fund contributions. Many respondents take the view that even without any increase in the rate, the tax burden has a severe impact on the financial position of medical organizations, since labour costs represent their biggest item of expenditure.

Difficulties arising in the course of PPP projects were indicated by some regional clinics and clinics from federal cities. Regional representatives reported a lack of support from relevant ministries, while clinics in federal cities referred to difficulties in dealing with city administrations.

“PPP projects are interesting, but hard to carry out in practice. In Moscow and Saint Petersburg there are a lot of premises that could be transferred to private clinics, but artificial difficulties always get in the way”.

Representative of a clinic

Clinics also mentioned the problem of low CMI tariffs for outpatient services as among the main reasons for avoiding collaboration with the state healthcare system.

Some participants in the survey referred to the negative effects of the restrictions imposed on Russia in 2014, which resulted in higher prices for consumable materials or shortages of such materials on the domestic market.

“The restrictions imposed on Russia have brought problems with shortages of imported consumables. Some companies have disappeared from the market, so we have to use others, and the upshot is that imported consumables are not always available. They have also gone up in price because of the exchange rate. Imports are expensive, but domestically-made alternatives don't exist”.

Representative of a clinic network

Non-network Moscow players also noted the problem of increased competition from rapidly developing networks.

Current Talking Points in Healthcare



Telemedicine

Draft law on telemedicine

On 29 July 2017 the Russian President Vladimir Putin signed the long-awaited bill allowing medical care to be provided in the Russian Federation using telemedicine technologies. Arguments about the volume and types of telemedicine services had been going on long before the bill was put before the State Duma in May of this year.

There were two versions of the bill: one was more conservative, and allowed such technologies to be used only for communication between doctors, while the second was more liberal, permitting the technologies to be used in doctor-patient communication. In the end, it was the bill containing the more liberal provisions that was submitted to the State Duma.

Under the bill passed by the State Duma and signed by the President, it will be permitted when providing medical care for consultations and case conferences to be conducted using telemedicine technologies which enable remote communication by doctors with each other and with the patient or his legal representative, and remote monitoring of a patient's health. The procedure for the conduct of such consultations and case conferences is to be established by a competent executive body.

It should be pointed out that the law does not permit diagnoses to be made or treatment prescribed via telemedicine technologies without a face-to-face appointment with the patient occurring first.

The law also allows for medical prescriptions to be issued electronically subject to the patient's consent and subject to the use of an enhanced qualified electronic signature. However, each region of Russia will make its own decision on whether to permit the use of electronic prescriptions in its territory.

These provisions of the law enter into force from 1 January 2018.

Despite the uncertainty over the legal status of telemedicine technologies before the law was passed, many companies in Russia have actively invested and are continuing to invest in the development of this form of interaction in the healthcare sphere. Online services are being developed that enable the arrangement of a home visit from a doctor or the provision of paid online consultations to patients. There are ambitious projects to create a fully digital clinic which involve the introduction of technical solutions such as remote monitoring of chronic diseases, automatic routing for doctors, a support system for decision-making by doctors, automated quality control, a mobile workstation for doctors and a standardized electronic medical card. Insurance companies are launching insurance products which allow for remote medical consultations.

All in all, despite the fact that there was until recently no legislative framework for the use of telemedicine technologies, participants in the Russian medical services market believe that modern technologies can be successfully used in the medical industry and are prepared to invest now in their development and eventual adoption. It must be said that since there is as yet no standard definition of what telemedicine is, many respondents have different ideas of what range of services the term implies.

Attitudes to telemedicine

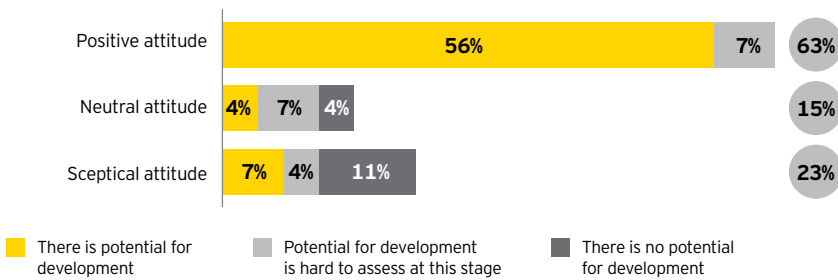
On the whole, many respondents take a positive or neutral view of telemedicine, but in many cases they do not regard it as a separate medical service.

“Telemedicine has a right to exist, and it will occupy its own niche as a separate service”.

Representative of a clinic

Scepticism regarding telemedicine arises from the fact that the respondents, and especially representatives of the medical community, do not believe in the possibility of remote diagnosis and consider that the risks involved in delivering services in this way are substantial.

Figure 54
Attitudes to telemedicine



“Telemedicine has certain natural advantages in Russia, given the large distances and shortage of specialized doctors, especially in the regions”.

Representative of a clinic

Almost 20% of respondents, the majority of which are Moscow clinics, stated that telemedicine had strong potential in a country such as Russia, where a large proportion of citizens live a long way away from a healthcare centre. Telemedicine is essentially the only chance they have of obtaining medical assistance. Regional clinics, on the other hand, complain about the low take-up of this service in the regions. The lack of promotion and low level of public awareness leads to scepticism about telemedicine. Patients do not know how it works.

“It is just a marketing ploy so as to be able to put a tick in the ‘accessibility’ box”.

Representative of a clinic network

Premium class clinics generally take a positive view of telemedicine and believe it has potential for development, but not in their own segment.

Some respondents observed that telemedicine was more appealing to the CMI sector than to private clinics, since it is in the CMI system that it affords money-saving opportunities.

“The market is being artificially overheated by creators of Internet platforms”.

Representative of a clinic network

Telemedicine projects

Over a half of respondents are actively looking at telemedicine: 37% are in negotiations about or have already begun implementing projects, and 15% are discussing potential opportunities.

26% of participants are not yet making any plans involving telemedicine, while 22% have adopted a passive wait-and-see attitude.

Interestingly, many clinics which are sceptical of telemedicine are nevertheless planning projects in that area. They explain this in terms of the need to “stay on trend and not be conspicuous”, but they are not willing to invest significant amounts.

Almost 35% of respondents believe that certain elements of telemedicine are already successfully functioning at their practices:

- ▶ the “second opinion” service;
- ▶ telephone consultations with doctors;

- ▶ communication with doctors via website chat boxes or with the aid of messenger services;
- ▶ the conduct of remote consultations in the form of communication between doctors (case conferences).

Many clinics will provide the service if partners are able to guarantee a flow of patients, but only a very few are interested in developing telemedicine independently as a separate line of business.

The majority of respondents (more than 75%) were unable to name any ongoing or planned telemedicine projects which they viewed as successful.

Those who did give answers identified projects such as “Doctor by Your Side”, the Roshal project and “Yandex.Health”.

“There are no such projects. I’ve never heard of a single one that was worth the investment”.

Representative of a clinic network

Range of medical services

The respondents were divided in their opinions on the most promising areas of telemedicine services.

Initial contact. 19% of respondents refer to the potential for providing an initial patient contact service. At the same time, virtually all the participants stated that telemedicine could be used to gather symptoms and medical background and could not be used for an initial consultation other than:

- ▶ general practitioner consultations to provide reassurance, give recommendations for pain relief and direct the patient to specialized doctors;
- ▶ consultations by specialists who do not need to examine a patient physically, such as a psychologist.

Figure 55
Status of telemedicine projects of medical organizations

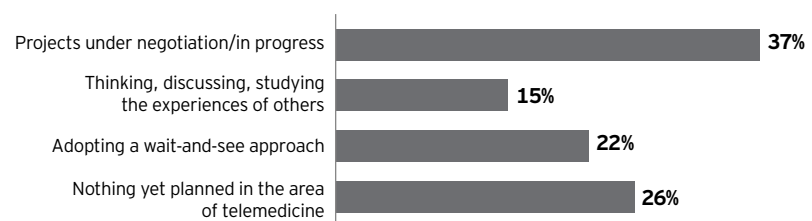
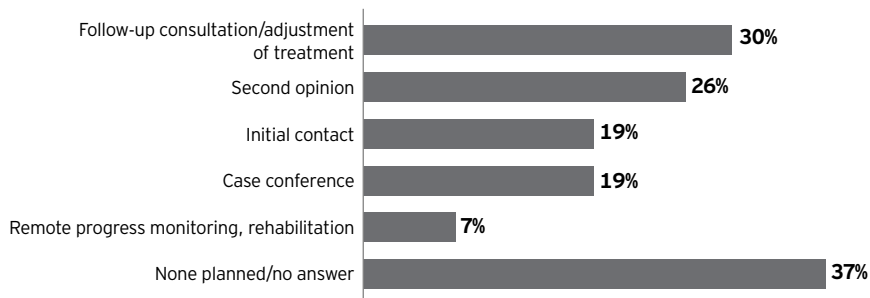


Figure 56
Range of services in the context of telemedicine



“It is impossible to understand symptoms and make a diagnosis based on what a patient says - it’s out of the question”.

Representative of a clinic network

Some respondents are as yet unable to decide on the potential for providing initial consultations, since they understand that this would require them to hire more doctors, purchase an information system and work with partners.

“All that telemedicine can do is enable you to gather symptoms and medical background. That’s the limit, unless we want healthcare to slide into quackery.”

Representative of a clinic network

Follow-up consultation. The participants in the study are not as conservative in this area. They believe that follow-up consultations to decipher test results and adjust prescriptions could be conducted remotely. Some respondents think that clinical academics, such as physicians or endocrinologists, could conduct all follow-up consultations in this way.

Furthermore, consultations with a doctor by telephone and using non-commercial messaging services are already viewed at many clinics as an integral component of medical services provided to patients.

Second opinion. The notion of a “second opinion” service in the context of telemedicine raises perhaps the least number of questions from the medical community. 26% of respondents plan to provide this service, and some of them perceive it as a key element of telemedicine.

Some respondents believe that such a service is beyond the scope of telemedicine.

Conduct of remote consultations between doctors (case conferences). Participants in the study which have significant experience in particular areas of disease and well-known specialists on their staff plan to concentrate on the B2B segment and use the remote format for communication between doctors. Respondents referred mainly to consultations between a doctor at a private clinic and doctors at regional state clinics and paramedics in remote regions. Also noted was the potential for doctors from private clinics to consult with each other, for example in the context of web-based case conferences.

Remote progress monitoring and control, rehabilitation. 7% saw potential for the introduction of technologies for real-time observation and control over a particular parameter of a patient’s health with corresponding adjustments to treatment. Participants in the study also indicated an interest in projects for remote monitoring of rehabilitation at home.

Commercial element

Respondents could select more than one option.

Figure 57
Sources of income

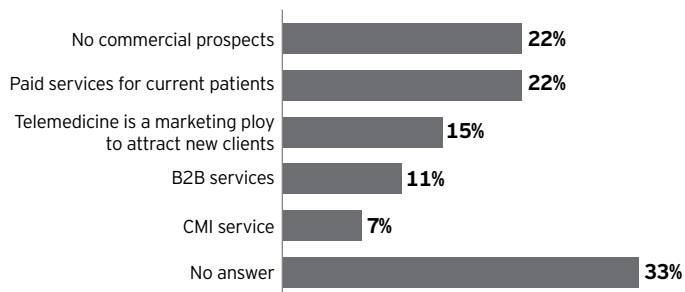
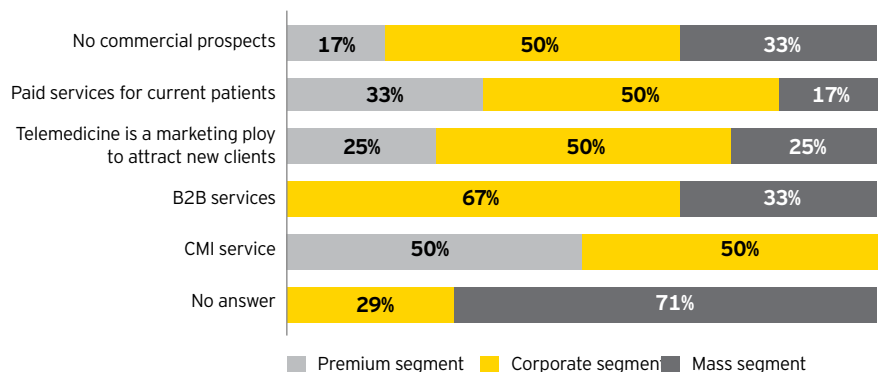


Figure 58
Distribution of sources of income by segment



"I do not see telemedicine as a source of profit or as a separate activity; it is just an additional function which cannot replace an actual visit to a clinic. If you consider the cost of attracting a patient and other related expenses, telemedicine is loss-making".

Representative of a clinic network

Almost a quarter of the respondents say that telemedicine has no commercial prospects and regard it as just as essential part of services provided.

Another 15% view telemedicine as a sort of marketing ploy designed partly to attract new patients. The participants in the study do not see it as a potential source of income and are therefore unwilling to invest in such projects.

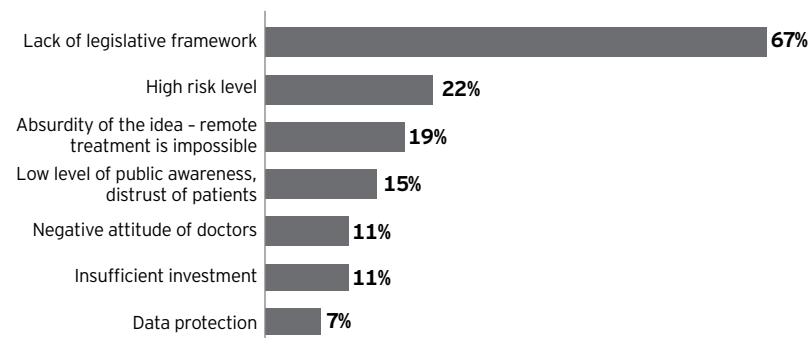
22% of those surveyed believe that conducting remote follow-up consultations on a paid basis is commercially justified.

11% of participants plan to earn money from providing services to other medical organizations, and a further 7% place emphasis on remote services in the context of CMI.

What are the barriers to the development of telemedicine?

Lack of a legislative framework. This factor was identified as the chief impediment to the development of telemedicine in Russia by 67% of respondents. They referred not only to the adoption of a law on telemedicine⁵, but also to a transparent doctor selection methodology and protection of the rights of both patient and doctor. Almost 20% of those surveyed said that they were waiting for a clear legislative framework to be established in relation to telemedicine so that their clinics could begin earning money from providing services in that field.

Figure 59
Barriers to the development of telemedicine



"The existing bill requires a patient to have an enhanced qualified electronic signature to obtain access to a telemedicine service. Such signatures are not at all in widespread use".

Representative of a clinic

At the same time, 7% of participants in the study do not understand how the data protection law would function in the context of telemedicine.

High risk level. Almost a quarter of the respondents indicate the high level of risks involved in telemedicine. They identified risks relating to the qualification of doctors to provide such services and errors in diagnosis and remote treatment, as well as possible complaints from patients about the failure to provide medical care where remote diagnosis is impossible.

Absurdity of the idea and negative attitude of doctors. Around 20% of respondents believe that remote medical treatment is impossible and the very idea of telemedicine is absurd. 11% indicated the negative attitude of the medical community as one of the main impediments to the development of telemedicine.

Low level of public awareness. 15% of those surveyed identified the extremely low level of public awareness and the resulting misgivings about telemedicine among members of the public as one of the main impediments.

"The public is not ready for telemedicine".

Representative of a clinic network

Insufficient investment. 11% of respondents referred to insufficient investment in telemedicine by the state and private investors and the reluctance to make investments in the future.

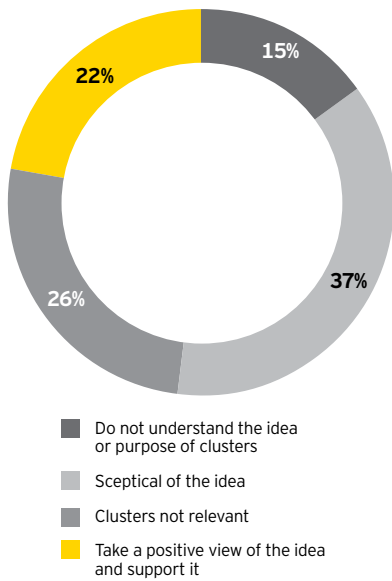


⁵ The survey was conducted before the Telemedicine Law was passed

Medical Clusters

Attitudes to clusters

Figure 60
Attitude of the respondents to medical clusters



Sceptical attitude. 37% of respondents take a sceptical view of the creation of medical clusters in Russia, half of them believing that they are created mainly for the purpose of utilizing allocated funds. The respondents support this view by pointing to the lack of results from current projects..

“There is no sign of any results from the Skolkovo clusters, for example, although the project was launched in 2010”.

Representative of a clinic network

Positive attitude and support. Over 25% of respondents take a positive view of the idea of creating medical clusters in Russia and support the idea. 8% carry out projects associated with medical clusters.

Participants in the study identified the following opportunities and advantages afforded by clusters:

- ▶ access to technologies;
- ▶ exchange of information;
- ▶ benefits and preferences accorded by the state.

At the same time, the respondents observed that very little effort was made to promote the idea to the public and there was a lack of information support, including in the media.

“The idea needs to be packaged to suit the Russian mentality and it needs to be explained to the patient why he needs to travel to get treatment and why it will be better that way”.

Representative of a clinic network

“Creating clusters makes sense for large regions”.

Representative of a clinic network

“We believe in it, because clusters could boost the development of medicine”.

Representative of a clinic network

Don't understand the idea or purpose of clusters / subject of medical clusters not relevant. 26% of respondents said that the subject of medical clusters was not relevant to them, and another 15% answered that they did not understand the idea of them or the purpose of creating them in Russia.

“We don't see the point of creating medical clusters, since it won't solve any problems or change the overall situation in the country”.

Representative of a clinic network



Medical Tourism

Incoming medical tourism

78% of respondents accept medical tourists for treatment at their clinics, with over 40% accepting patients from other regions of Russia, 15% from the CIS and 20% from the far abroad. The flow of medical tourists to clinics, especially from the far abroad, is more often than not the result of arrangements with insurance and service companies.

In geographical terms, medical tourists are accepted by:

- ▶ 73% of clinics represented only in federal cities;
- ▶ 89% of clinics represented in both federal cities and the regions;
- ▶ 67% of regional clinics.

Despite the large number of respondents which gave an affirmative answer to this question, over half (55%) of clinics only have a small number of medical tourists: they usually account for no more than 1-2% of annual revenue.

Outgoing medical tourism

Only 23% of respondents refer their patients to other clinics, whether in Russia or abroad.

Just over half of respondents do not refer patients to other clinics because they do not engage in patient routing, while others do not see the need to do so because they provide a full range of medical services themselves.

At the same time, 30% of all participants in the study, the majority of which are representatives of the corporate and mass segments, stated that they planned to develop medical tourism and were intent on increasing patient flow.

Figure 61
Do you accept medical tourists for treatment?

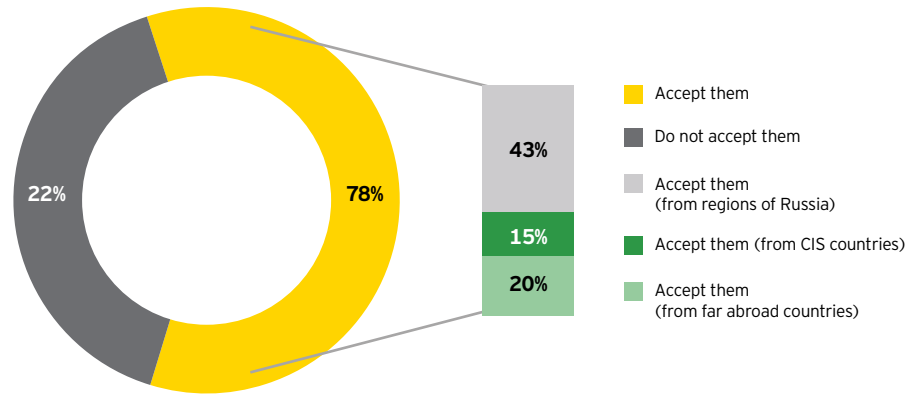


Figure 62
Distribution of clinics which accept medical tourists by segment

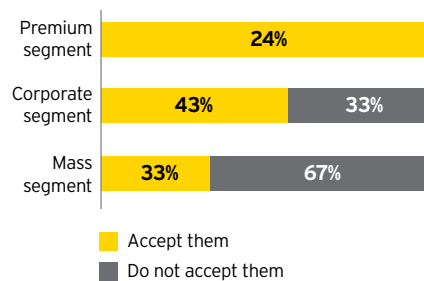


Figure 63
Distribution of clinics which accept medical tourists by geographic location

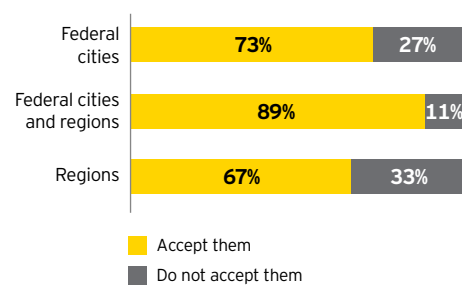


Figure 64
Do you refer patients to other clinics?

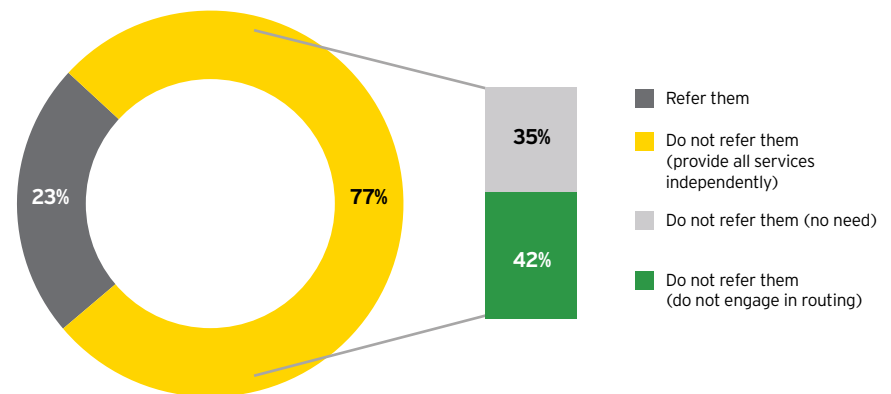
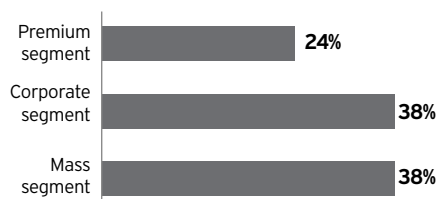


Figure 65
Distribution of clinics planning to develop medical tourism by segment



Profile of Participants and Research Methodology

The study was conducted in the period from April to July 2017. Taking part in it were more than 25 major private multidisciplinary medical organizations whose areas of operation covered all of Russia's federal districts.



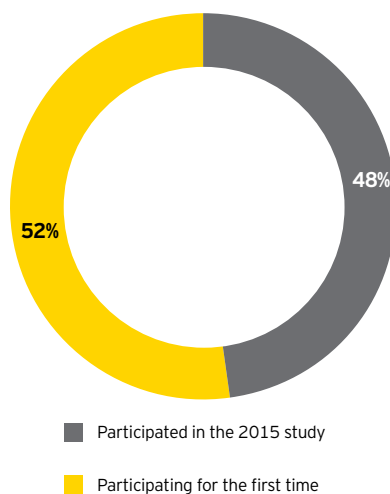
Selection of participants in the study

This year we based our selection of medical organizations for the survey on the rankings of major private multidisciplinary clinics in Russia published by the business magazine Vademecum⁶. Around 75% of the participants in the study occupy top 50 positions in that ranking.

48% of respondents are clinics which took part in the 2015 study.

Owing to the change in the focus of the study, departmental healthcare centres and narrowly specialized and mono-disciplinary clinics were excluded from the list of participants.

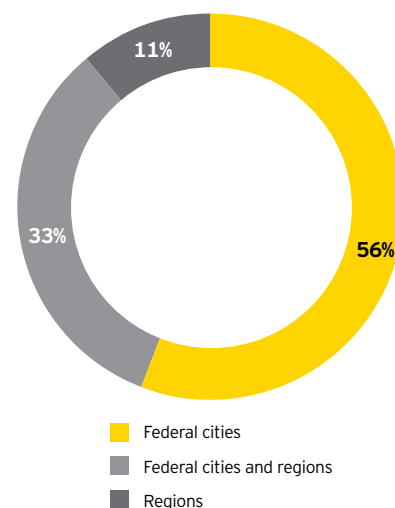
Figure 66
Proportion of participants in the last study



The majority of regional clinics are concentrated in the Volga, Urals and North-Western federal districts.

One half of clinics participating in the study for the first time are Moscow-based multidisciplinary medical organizations, while the remaining new participants operate in both federal cities and regions.

Figure 67
Areas of operation of participants in the study



Areas of operation

For the purposes of analysis all the medical institutions surveyed were divided into the following groups in geographical terms:

- ▶ Medical organizations operating only in the federal cities Moscow and Saint Petersburg;
- ▶ Medical organizations operating in federal cities and regions;
- ▶ Medical organizations operating only in regions.

⁶ Vademecum magazine ranking: "Top 100 Private Multidisciplinary Clinics in Russia", Vademecum, № 20, 2016

Format of medical business

Over 70% of private medical organizations surveyed operate as part of a network of clinics situated in one or more Russian towns. 86% of non-network companies are Moscow medical organizations.

All medical organizations participating in the survey provide outpatient services, 78% have full and/or daytime in-patient facilities, and 70% of clinics have a paediatric division. Around 40% of the participants in the study provide rehabilitation services.

Segmentation

We assigned all the surveyed clinics to premium, corporate and mass price segments. Clinics were classified by segment using a number of criteria taken together:

- ▶ the average bill amount for patients: private and VMI patients⁷;
- ▶ participants' own assessment of their segment;
- ▶ the segment in which competing clinics specified by a company operated.

Based on the average bill criterion, we placed clinics with an average bill exceeding 15,000 roubles in the premium segment. The average bill in the corporate segment ranged from 6,000 to 15,000 roubles, while in the mass segment it did not exceed 6,000 roubles.

All participants in the survey were allocated to three segments taking into account clinics' own assessment of their segment and the competitive environment. Mass segment and corporate segment clinics made up the bulk of respondents (82%).

Figure 68
Distribution of clinics by format of medical business

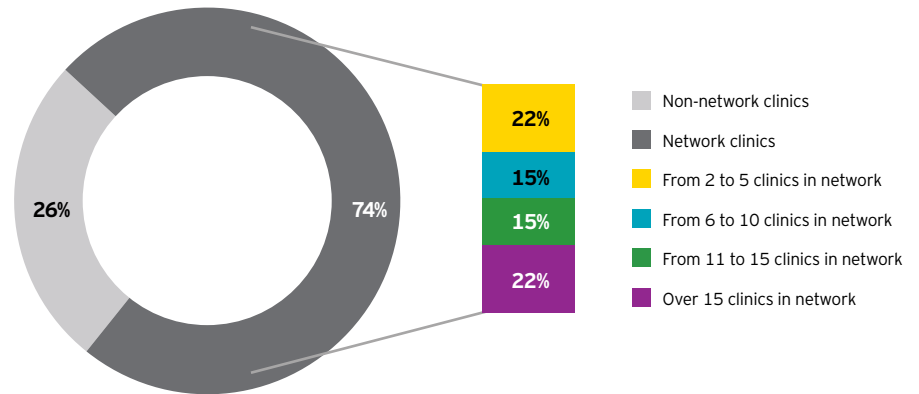


Figure 69
Profile of services provided

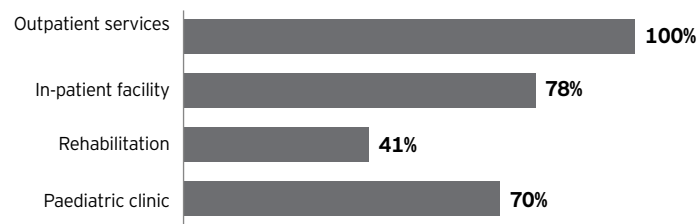
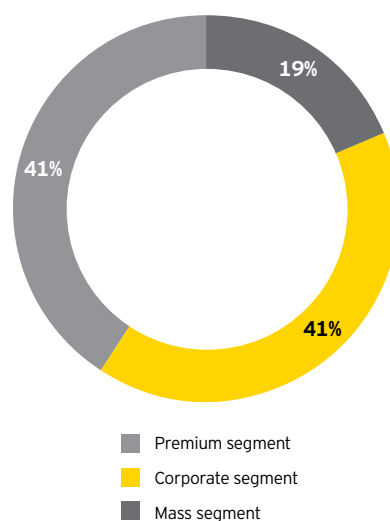


Figure 70
Distribution of clinics by segment



⁷ Based on average bill data provided by the participants in the study..

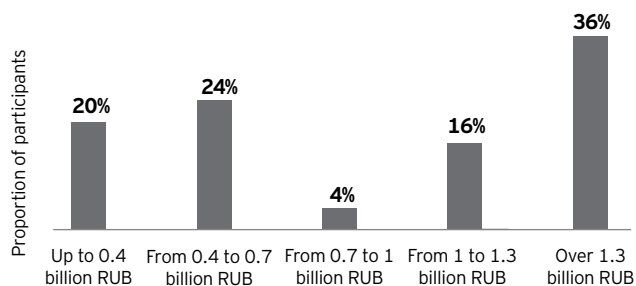
Revenue

In selecting participants in our study we concentrated on major market players. The aggregate revenue of the surveyed medical organizations in 2016 was over 55 billion roubles, which represents 11% of the legitimate commercial medicine market (including the VMI market)⁸.

Format of the study

The survey was conducted primarily by means of face-to-face or telephone interviews with top managers of medical organizations, including general, commercial and financial directors, chief doctors, marketing directors and other managers.

Figure 71
Distribution of participants in terms of 2016 revenue



⁸ Analysis of the medical services market in Russia in 2012-2016, forecast for 2017-2021, BusinesStat, 2017..

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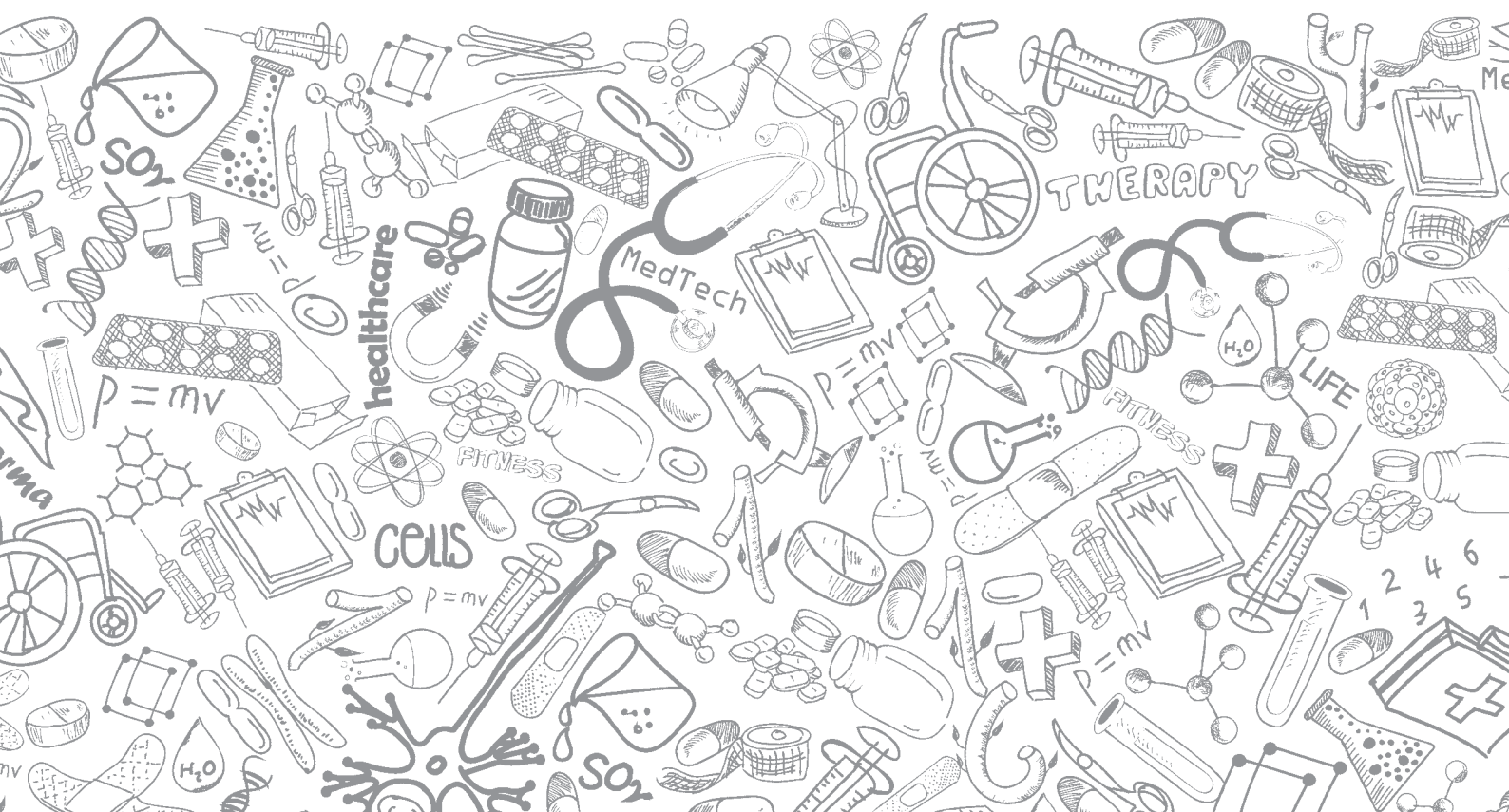
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