



Survey of the
Russian commercial
healthcare market

2018-2019

EY

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Abbreviations

CMI	Compulsory medical insurance	MRI	Magnetic resonance imaging
CRM	Customer Relationship Management	PET	Positron emission tomography
CT	Computed tomography	PPP	Public-private partnership
HCO	Healthcare organization	SEO	Search Engine Optimization
IT	Information technology	USHIS	Unified State Health Information System
IVF	In vitro fertilization	VMI	Voluntary medical insurance



Introduction

EY has conducted its latest survey of the commercial medicine market and healthcare system in Russia for 2018 and 2019, once again questioning healthcare organizations on key issues and problems facing the sector.

The survey was conducted over the period from August to December 2019 among more than 25 major private multidisciplinary healthcare organizations operating across six federal districts and 30 regions of Russia.

To make the results of the survey comparable with our last survey¹, the following topics were covered in the questionnaires:

- ▶ changes and key trends on the private healthcare market
- ▶ important steps and actions on the part of the state
- ▶ changes in the activities of the healthcare organization, key problems and areas for further development

Within these subject areas we added a number of new questions on matters such as changes in demand for medical specialties, relationships between healthcare organizations and insurance organizations and patient acquisition and retention tools, and paid particular attention to the predictions and expectations of healthcare companies regarding the outlook for the private healthcare market.

At the same time, we continued the tradition begun in 2017 of highlighting topical issues in the healthcare industry by including questions about the development of telemedicine, the introduction of prescription drug insurance, the creation of the unified information network and the implementation of the “Healthcare” national project.

In order to cover problems from different angles and make our conclusions as complete and objective as possible, we discussed areas of major concern with market experts and presented their views in the commentaries to the relevant sections of the report.

EY would like to take this opportunity to thank all the healthcare organizations and experts that took part in our survey. We hope that the results of the study will be helpful to a broad range of participants in the healthcare market.

¹ “Survey of the commercial healthcare market for 2016 and the first half of 2017”, EY.

Key conclusions



1

The commercial healthcare market: demand, competition and projected outlook

Changes in consumer preferences: trends and forecasts

- ▶ 58% of healthcare organizations indicated higher customer service expectations as the main trend in consumer demand. The customer service component is becoming an increasingly important criterion in choosing paid medical services both in the major cities and in the regions: patients expect to receive not only high-quality medical care, but also a high standard of service at all stages of contact with a clinic.
- ▶ 42% of participants in the survey believe that in the digital age, consumers attach increasing importance to the following elements of customer service: quick access to information about a clinic and specialists, as well as to their own medical history and test results; the ability to book an appointment online whenever it suits them; the availability of online feedback channels. In this context, patients find it increasingly important to have access to tools such as online personal accounts and mobile applications, which bring together key functions for the consumer.
- ▶ Over a quarter of those surveyed observed that patients nowadays

- expect doctors to have high standards of interpersonal communication as well as the requisite professional skills.
- ▶ One of the key continuing trends over the last few years has been the decline in effective demand and economizing on the part of patients. This time round, 46% of respondents acknowledged this trend. It is manifested in the streamlining of expenditure on healthcare services and reduced demand for packaged programmes and services.
 - ▶ 38% of respondents noted increased demand among patients for high standards of healthcare provision, observing that current consumer preferences for private clinics in terms of quality were linked to the use of advanced technology in medical care, the effectiveness of healthcare services and the high level of expertise of medical personnel.
 - ▶ According to 35% of respondents, over the last two years patients have become better informed about available healthcare services and what care they can expect to receive at particular healthcare organizations. Patients increasingly compare the options available at different clinics and spend much time studying information about doctors and medical services, as well as generally available information about health problems and diagnosis and treatment methods. Closely related to this trend is the problem of the low level of personal health awareness among mainstream patients, which was indicated by just over a third of the participants in our survey. Meanwhile, the wide use by patients of information found on the Internet to self-diagnose and treat their health issues was seen as the most negative trend by 19% of respondents.
 - ▶ As far as consumer behaviour was concerned, 31% of participants reported an increase in negative attitudes and aggression directed at private healthcare. They attributed this to the fall in consumer income, negative customer experience, media coverage, growing expectations and increasing knowledgeableability of patients. Almost 20% of participants indicated that they encountered instances of patient extremism/terrorism in their work.
 - ▶ Demand for packaged healthcare services at healthcare institutions has traditionally figured among important consumer trends in past surveys. On this occasion, demand for packaged offerings was indicated by 19% of respondents.
 - ▶ 15% of the survey participants noted the rising popularity of preventive medicine among modern, forward-thinking patients who seek to remain healthy and active for as long as possible and do not want to spend time and money on treating illnesses. This engenders a demand for preventive healthcare services, including customized check-up programmes, non-traditional diagnosis methods and non-drug treatments, as well as relatively new healthcare service lines.
 - ▶ Just over 40% of the study participants indicated that they expect the decline in effective demand to continue over the next 2-3 years. As a result, they predict a reduction in the number of commercial patients going to private clinics for routine matters that can be put off, coupled with higher demand for free healthcare and increased patient migration to state healthcare institutions.
 - ▶ 38% of the study participants took the view that current trends on the commercial healthcare market would continue. The respondents observed that consumer behaviour would largely depend on customer demand as well as on the development of the state healthcare system and the accessibility of medical care at state healthcare institutions.
 - ▶ Over a third of respondents expect to see a further increase in consumer demand for high-technology medical services provided at private clinics.
 - ▶ Despite the doubts voiced by many respondents about the potential for the development and commercialization of preventive medicine, 27% of them believe that the trend in favour of healthy living and disease prevention will grow, leading to an increase in demand for the services of private clinics in this field.
- Expectations regarding future demand for healthcare services**
- ▶ Over half of the healthcare organizations surveyed see increased patient demand for high-quality customer service and individual care as a key trend. Healthcare is becoming increasingly "Uberized", meaning that patient priorities lie in timesaving, digitalization and a high level of comfort and satisfaction in receiving services.

The voluntary medical insurance market: trends and forecasts

- ▶ The voluntary medical insurance (VMI) market has continued to stagnate in relative terms over the last two years with low, inflation-based growth. Economizing by employers on VMI prompts intense price competition among insurance companies and the transfer of portfolios of insured persons from one to another. This in turn puts increased pressure on healthcare organizations that have an interest in handling VMI patients. Despite this, half of the respondents reported that in 2018-2019 they had retained a large proportion of their VMI patients or increased the number of registrations from insurance companies.
- ▶ Economizing by employers has forced insurance companies to offer lower-cost VMI arrangements in order to remain competitive. As a result, the majority of participants in the survey report that the chief focus of insurers in recent years has been to control their expenditure and keep margins at an acceptable level.
- ▶ 42% of respondents indicated that employers were trimming VMI expenditure. Since 2015 companies have been reducing their budgets for healthcare provision for employees. This means that employers are reducing their premiums, downsizing packages, more readily agreeing to VMI programmes with deductibles and in some cases opting not to insure their employees at all.
- ▶ There is an increasingly marked trend on the VMI market towards the departure of small players and the consolidation of the market. This consolidation trend stems largely from the fact that both employers and healthcare organizations themselves find it convenient to deal with large insurance companies. Consequently, the more vulnerable players are dropping out of the insurance market, whether by reason of losing their licences or as a result of mergers or takeover by larger entities. According to the respondents, an increasingly large proportion of the market is concentrated

in the hands of 7-10 key companies, and it is these that will determine the further development of VMI. Consolidation is even more marked in the regions, where there tend to be one or two dominant players which dictate the rules of play on the market.

Expectations regarding the development of the VMI market

- ▶ Continuation of the trends of limited growth and consolidation of the insurance market: the majority of participants see no grounds to expect any significant improvement in the situation on the insurance market over the next few years. In their view, while VMI exists only in the corporate environment and there is no full-fledged VMI system for individuals, market growth will be restrained by weak rates of economic growth, which will be compounded by the consolidation of the insurance market.
- ▶ Inflation remains the only obvious growth factor in the voluntary medical insurance market. At the same time, some respondents believe that the sector will be boosted to some extent by the promotion of critical illness and comprehensive health screening programmes and the expansion of telemedicine services among sections of the public that did not previously use paid medical services, as well as the potential development of international insurance programmes in the high price segment.
- ▶ Development of new formats of relationships between insurance companies and healthcare organizations: arrangements with insurance companies are becoming increasingly individualized. The respondents believe that the risk model that is currently predominant on the VMI market is obsolete and ineffective as a tool for meeting insurance objectives. Insurance companies need to offer new products and formats and there must be greater involvement of healthcare institutions in the process of the calculation of insurance risks.

- ▶ Spread of VMI critical illness and comprehensive screening programmes: as greater attention is paid to health problems and early diagnosis of critical illnesses, the survey participants expect sales of such services to grow. This may be aided by potential legislative measures aimed at encouraging employers to include regular VMI health screening in an employee's social package.
- ▶ Modernization of the medical insurance system: the respondents said that the time had come to improve the way the insurance system is organized in Russia. In the opinion of the survey participants, the best way to modernize the Russian insurance system would be to combine compulsory and voluntary medical insurance. This would benefit healthcare organizations, insurance companies and patients alike. However, achieving this would require changes in the law and initiative on the part of insurers themselves.

Competition on the healthcare services market: trends and forecasts

- ▶ 46% of healthcare organizations indicated high competition for doctors as a key trend on the market. Around 60% of survey participants observed that in the federal cities, healthcare organizations were increasingly competing with state healthcare institutions for doctors. As a result of the pay rise awarded to state sector medical workers under the President's "May edicts" of 2012, it has become more difficult and more expensive for commercial clinics to recruit and retain good doctors. The problem of competition for doctors is no less acute for regional clinics, as there is traditionally a shortage of skilled medical workers in the regions.
- ▶ 42% of participants noted increased competition from state clinics, with 90% of responses relating to competition in the federal cities. During the last few years, state healthcare institutions have made themselves more competitive by upgrading their technology and



improving customer service under state healthcare modernization programmes. They have also entered the paid services market. As a result, the survey participants have begun to notice a tendency for less wealthy patients to migrate to municipal clinics.

- ▶ 38% of respondents identified consolidation of the private healthcare market and the growth of network players as another trend that is indicative of the maturity of the healthcare sector. On the one hand, consolidation is driven partly by the closure of small federal city clinics and the re-allocation of their share to market leaders. On the other hand, large players in the federal cities are opening new clinics operating under different formats or taking over other healthcare organizations both in their current area of operation and in other regions. However, unlike in the federal cities, regional HCOs see no potential for consolidation in the regions.
- ▶ 35% of study participants noted active participation in the compulsory medical insurance (CMI) system or joint projects with the state as significant steps taken by their competitors. Market participants view partnership with the state as an effective way of increasing patient flows and improving their finances, but at the same time feel that it may expose them to additional inspections and reporting requirements as well as a potential risk of the accumulation of debt owed by territorial CMI funds for medical services provided.
- ▶ Our last survey indicated the expansion of the range of services offered by competitors as a key trend on the commercial healthcare market. This time, only 19% of respondents referred to the entry of competitors into new business areas. Over the last two years, healthcare organizations have focused more on promoting their own brands and existing business areas and services.
- ▶ 19% respondents reported that the opening of large healthcare clinics by new investors continued to take place in Moscow and St Petersburg. However, this trend appears to be in decline.
- ▶ Around 20% of the survey participants pointed to improper practices on the part of competitors as a factor that makes it harder for private clinics to do business. As before, one of the most common problems is the use by some healthcare companies of “grey” salary schemes for their staff, which enables them to lower their tax base.
- ▶ Despite the trend towards lower effective demand, only 15% of healthcare organizations said that price competition between private clinics had intensified in 2018-2019.

Expectations regarding the future development of competition on the healthcare market

- ▶ The majority of participants in the survey expect the healthcare services market to witness more intense competition and fighting for patients in view of the continuing constraints on consumer spending power, government initiatives to increase the efficiency of medical care and steps by major players to strengthen their position.
- ▶ Thanks to the state's efforts to modernize the healthcare system, primarily in large cities, the next few years are likely to see increased competition for patients between private and state healthcare institutions. Meanwhile, regional healthcare organizations expect to see a growing influx of patients from municipal clinics in the next few years owing to the fact that, generally speaking, state healthcare in the regions cannot offer them the same level of service or the same standard of medical care as is offered by private clinics.
- ▶ The majority of respondents concur in the view that the gradual consolidation of the healthcare industry is inevitable in the current climate. The growth of the private healthcare market is restricted by effective demand, new players are appearing at a slower rate, and smaller clinics will find it increasingly difficult to compete with large healthcare networks and, in the long term, with state healthcare institutions.
- ▶ In addition, the surveyed companies believe that large healthcare companies will continue to pursue a strategy of extensive growth by opening new clinics or acquiring weaker competitors. While some respondents see this as a natural phase in the development of the industry, others say that, in view of the limited market capacity, aggressive behaviour may ultimately lead companies into economic difficulty, thereby paving the way for the arrival of new investors, including from abroad, who will consolidate the market.

- ▶ The respondents observe that some companies may drop out of the commercial healthcare market as a result of increased state scrutiny of the activities of healthcare institutions operating “grey” financial schemes.
- ▶ Among the notable trends on the commercial healthcare market observed by the study participants is the increased interest of large network healthcare organizations in regional development. The respondents expect that, depending on income and the prevailing standard of healthcare in specific regions, large companies will employ a variety of expansion approaches, including the acquisition of local players, the opening of franchise clinics or various forms of partnership with the state (participation in CMI and public-private partnership).
- ▶ In the next few years, major market players will continue to develop partnerships with the state in the area of high-technology care as they aim to increase the extent and scope of their involvement in CMI. At the same time, the survey participants observed that the development of the involvement of private clinics in the CMI system may be restrained by the state through quota restrictions as well as by growing competition for the provision of high-technology medical care, including from state clinics.
- ▶ HCO representatives believe that it is important for the future development of the industry for market players to pool efforts to develop a dialogue with the state over key issues concerning the regulation and effective participation of private companies in the healthcare system.

Market growth forecasts and drivers

- ▶ Compared with our last survey, respondents were more restrained this year in their assessment of the growth prospects for commercial healthcare. A significantly higher proportion of HCOs expect slow growth (less than 5%) or believe that the market will not grow at all (42% against 15% in 2017), while the number of participants predicting a moderate growth rate of 5-10% has halved and there are five times fewer respondents expecting to see significant growth (more than 10% per year). The increase in the proportion of respondents who found it impossible to give a quantitative estimate of market growth in the next few years (from 15% to 31%) is indicative of growing uncertainty and instability in the healthcare market.
- ▶ A total of 15% of surveyed clinics consider that the current situation is not conducive to an increase in demand for good-quality private medical care and may be more suited to small mass segment clinics and state healthcare institutions.

Market growth drivers

- ▶ According to 31% of those surveyed, the development of the commercial healthcare sector will be driven by major investment in the opening of new medical centres, the expansion of existing clinics and the takeover of small players by large networks.

- ▶ 27% of respondents answered that the growth of the private healthcare service market will be affected by the strengthening of the competitive advantages of private HCOs.
- ▶ 19% of the surveyed HCOs believe that the volume of commercial healthcare provision will be boosted by the increased involvement of private clinics in the CMI system in the area of high-technology medical care. Some study participants believe that significant changes can only be achieved by giving private organizations easier access to the state-funded healthcare system and shifting to a more liberal/transparent pricing regime in CMI.
- ▶ 12% of HCO representatives think that the growth of private healthcare will be driven by the development of the diagnostic capabilities of private medicine and the adoption of innovative diagnosis and treatment technologies, which will boost the number of patients.
- ▶ 8% of respondents believe that there will be a shift in the culture of the consumption of healthcare services in the next few years, as a result of which the younger generation will prefer high-quality medical care in private clinics and drive up demand for preventive healthcare services..

2

Partnership with the state

Participation in the compulsory medical insurance (CMI) system

- ▶ The majority of participants continue to regard involvement in the provision of CMI outpatient services as uneconomic owing to the fact that current state tariffs for this type of medical care not only make it unprofitable, but sometimes do not even cover the basic cost of providing services.
- ▶ At the same time, the provision of high-technology medical care under CMI has become one of the growth areas for private healthcare organizations. Firstly, private clinics have expensive equipment that requires maximum utilization to provide a return on invested capital. Secondly, the respondents possess the skills needed to provide high-quality treatment of complex illnesses. Thirdly, the VMI market has stopped showing signs of growth, reflecting a decline in consumer spending power.
- ▶ Nevertheless, despite the advantages of being able to diversify their services and provide care under the CMI system, the majority of respondents still report that they experience a fair amount of difficulty and uncertainty when it comes to obtaining state orders and working with the state. This is primarily due to the lack of transparency in the distribution of quotas among market participants.
- ▶ 65% of those surveyed participate in the CMI system, while a further 20% do not participate in it at present but plan to do so in the future. Generally speaking, healthcare organizations choose their areas of participation in CMI based on their available competencies.



Participation in PPP projects

- ▶ 19% of private clinics are involved in public-private partnership projects. This is similar to the figure in the last survey. Key areas of cooperation identified by the respondents are cancer care centres in the regions and the installation of high-technology equipment at existing state institutions.
- ▶ The majority of respondents (62%) remain reluctant to enter into such joint projects. The results of the survey showed that only 8% of all respondents were contemplating partnership with the state owing to the low probability

of success. A significant proportion of respondents that are already involved in PPP projects regard them as inefficient.

- ▶ The main reasons cited by private clinics for their reluctance to work with the state were a lack of confidence in future partnership with state authorities and the low economic efficiency of investments.



3

Development of healthcare organizations: performance indicators, projects and key problems

Projects carried out in 2018-2019

- ▶ In contrast to the 2016-2017 period, in which 67% of study participants carried out projects aimed at expanding the range of healthcare services and increasing operating efficiency, in 2018-2019 the majority of companies were focused on expanding their networks. A total of 66% of respondents opened new clinics or branches during that period, which is largely reflective of the plans indicated by the participants in our last survey. Projects to expand the range of healthcare services were in second place, carried out by half of the respondents.
- ▶ 35% of the participants carried out modernization and refurbishment

projects, which mainly involve purchasing equipment and making modifications needed to launch new lines of healthcare services.

- ▶ 27% of the respondents carried out information technology projects over the last two years. Of these, more than half (57%) worked on the implementation or integration of new information systems/analytical platforms. 43% of participants who carried out IT projects said that they were aimed at the introduction of telemedicine services, while the development of mobile applications, the implementation of elements of artificial intelligence and the automation of processes and standards were each indicated by 29%.
- ▶ 15% of those surveyed carried out operational projects, the most popular being the implementation of organizational changes, including staff optimization, training projects and business process optimization to improve the running of clinics.
- ▶ As far as return on investments was concerned, 8% of respondents reported it as higher than expected, while the majority (58%) said that it was as expected, and a further 12% admitted that their expectations had been higher.

Changes in performance indicators of healthcare organizations

- ▶ The aggregate revenue of 88% of companies that took part in the survey grew by 21.8% in 2018. The highest revenue growth was shown by healthcare organizations operating in both the federal cities and the regions (23.6%), while the lowest was shown by regional companies (9.6%). Companies operating only on the Moscow and St Petersburg market saw their revenues rise by an average of 22.2%.
- ▶ For 46% of companies that provided data, operating profit margins rose from an average of 21% in 2017 to 22% in 2018. Federal city clinics showed differing trends in their operating margins and greater variation in the lowest and highest values of that indicator owing to the fact that they cover a range of price segments. Average operating margin figures for regional clinics and network companies operating in both the federal cities and the regions showed a slightly downward trajectory and lower maximum margins overall than clinics operating only in the federal cities.

- ▶ The average bill for commercial patients in 2018 was driven up by higher tariffs for medical services: 40% of the surveyed healthcare companies raised their prices in line with inflation, while 46% increased prices for individuals by more than 5%. 14% of clinics opted to leave prices unchanged or even lower them. In the case of insurance patients, on the contrary, the proportion of clinics that lowered prices or kept them unchanged rose to 28% against 8% in 2017, while there was a decrease in the number of companies that raised prices.
 - ▶ In 2019 there was a greater tendency among clinics to raise charges for all categories of patients. For instance, figures for 58% of companies surveyed indicated that more than half of them had increased prices for insurance patients above the rate of inflation, while 62% indicated similar hikes for commercial patients.
 - ▶ Somewhat different pictures emerge for insurance patients and for those paying privately: 33% of respondents noted an increase in the quantity of medical services in the average bill of an insurance patient, and only a quarter noted the same for a private patient's bill. At the same time, a decrease in the quantity of services in the average bill of insurance patients was noted by 47% of clinics, while a slight lower number of those surveyed – 42% – indicated a reduced quantity of services in the case of private patients.
 - ▶ 31% of respondents reported seeing an increase in the number of VMI patients in their clinics in the last few years, driven both by direct business development strategies on the part of HCOs and by external factors. 23% of the companies surveyed observe an increase in the proportion of commercial patients, which is partly due to changes on the voluntary medical insurance market: patients who used to go to a specific clinic under a private policy but for whatever reason no longer have that policy continue by force of habit to go to the same clinic on a paid basis.
 - ▶ According to the survey participants, the annual increase in the number of privately paying patients in their clinics is 10-25% and may vary between different areas of healthcare. At the same time, the companies noted that the commercial healthcare market is not growing. This implies that the increase is due to price rises or the migration of patients from other clinics.
 - ▶ Another trend of the last few years that was indicated by 23% of those surveyed is the greater proportion of CMI patients in the structure of clinics' patient flows. This is largely due to the increased participation of private HCOs in high-technology care under CMI, but some clinics are also increasing the volume of CMI-based outpatient care.
 - ▶ Average utilization data provided by 62% of healthcare organizations suggests that there have increased flows of patients to private clinics in Moscow, St Petersburg and the regions against a slight reduction in the number of patients handled by healthcare networks operating in both the federal cities and the regions.
- Patient acquisition and retention tools**
- ▶ The participants in the survey noted that it is becoming increasingly difficult for private clinics to attract new patients, and most HCOs therefore use a variety of tools for this purpose. Over 70% of respondents identified online advertising as their main acquisition channel, pointing in particular to SEO promotion and contextual advertising.
 - ▶ 27% of the respondents identified social networks as an important acquisition channel while indicating different approaches to using them: some healthcare organizations place targeted advertising of healthcare services, others use social networks to publish information content that may be of interest to users, while others still have opted to raise the profiles of individual doctors and build recognition of them among the audience.
 - ▶ 42% of the healthcare organizations continue to use offline advertising, including exterior advertising, television and radio, and the printed press. At the same time, many noted that they were cutting expenditure on those promotion tools as they were not convinced of their effectiveness, especially now that many modern consumers have migrated to the Internet. Increasingly, therefore, clinics use offline advertising only for image purposes or for particular age categories.
 - ▶ 31% of the respondents indicated their main means of promotion was word of mouth, whereby patients come to a clinic at the recommendation of relatives or acquaintances. This accounts for over 50-60% of first-time patients.
 - ▶ As effective demand decreases, 23% of the HCOs regard discounts and promotions for healthcare services, including the offering of integrated packages or special programmes, as an effective means of acquiring new patients.
 - ▶ Almost a quarter of the clinics surveyed use aggregators and lead generators to boost patient flows. Those that did so were exclusively organizations operating in the federal cities only.
 - ▶ Around 20% of survey participants pointed to the importance of improving their website to make it as easy to use and informative as possible for both new and existing patients.
 - ▶ 15% of HCOs work on creating video content to boost interest in services and doctors. Some make video tours of medical centres and create patient feedback videos, while others use video to introduce their doctors.

- ▶ The respondents were generally divided in their views on acquiring patients: some said that marketing tools were not particularly effective in increasing patient flows to the clinic, while others observed that, on the contrary, the intensification of competition for patients over the last few years made it even more necessary to invest in the marketing and promotion of an HCO's brand and healthcare service offerings.
- ▶ The survey participants were more united in their views regarding patient retention, emphasising that the main challenge for healthcare organizations, especially in the context of the emerging trend for some patients to migrate to state healthcare institutions, was to develop long-term relationships and increase the number of returning patients.

Planned projects

- ▶ Over 70% of the survey participants plan to expand their range of healthcare services and move into new business areas over the next two to three years.
- ▶ The second highest answer, given by 58% of the respondents, was the opening of new clinics and the expansion of existing facilities in their regions of operation. Meanwhile, just under a third of the companies surveyed are contemplating expansion into new regions.
- ▶ 38% will work on implementing internal operational projects. Half plan to optimize business processes, 40% will carry out projects aimed at improving customer service, and a further 20% intend to set about optimizing costs.
- ▶ 31% of those surveyed are planning information technology projects. Half of these intend to introduce or modify a personal account system and/or mobile application, while another 38% have projects to implement/optimize CRM systems. A quarter of the participants will work on launching a new information system in their clinics, and the same proportion again will work on searching for and implementing innovative IT solutions. 13% of those surveyed are planning to work on general process automation.
- ▶ 27% of participants are not planning major changes and will focus on developing existing business areas, retaining their market position and determining a new development strategy.
- ▶ Despite all the difficulties noted by the survey participants in interaction with the state, 19% of clinics indicated entry into the CMI sector in the area of high-technology medical care or further development of that business area as a strategic focus in the medium term.
- ▶ 15% of respondents plan to carry out modernization and refurbishment. Of these, the majority refer to the purchase of equipment as an essential measure to enable them to retain their current market positions.
- ▶ 12% of those surveyed identified developing the export of medical services as one of their strategic business areas.

Planned investment to 2023

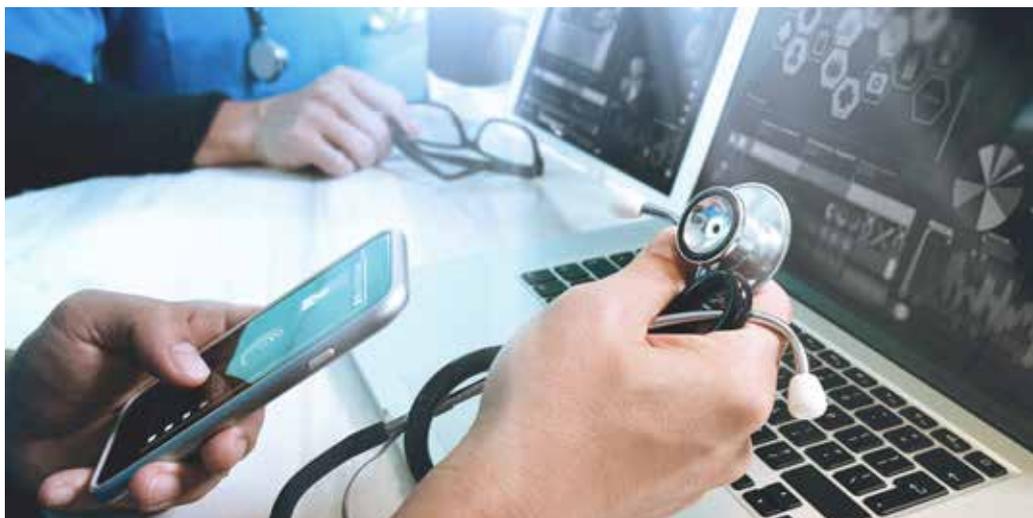
- ▶ In total, 38% of surveyed clinics plan to invest over RUB 0.5 billion in projects over the next three years.
- ▶ Among clinics operating in the federal cities, a third plan to invest more than RUB 0.5 billion, 20% plan between RUB 100 and 500 million, and the same again plan between RUB 20 and 100 million. 13% of clinics intend to spend less than RUB 20 million, while the remaining respondents have not yet worked out figures.
- ▶ The vast majority - 80% - of regional clinics will be investing between RUB 100 and 500 million, while 20% are not yet in a position to give figures.
- ▶ Only 17% of federal networks will be spending between RUB 20 and 100 million, with the remaining 83% planning to invest more than RUB 0.5 billion, and 50% of those more than RUB 1 billion.

4

Current talking points in healthcare

Telemedicine

- ▶ In our last study, over 60% of those surveyed expressed a positive attitude to telemedicine: over half were actively considering telemedicine for their organizations, while 37% were in negotiations about or had already begun implementing projects. Now, over 80% of participants in the survey say that telemedicine projects have not lived up to their expectations. 14% of these assert that telemedicine was a marketing move from the outset and only 8% take the opposite view.
- ▶ Among those who consider that telemedicine services have not lived up to expectations, almost half identify legislative restrictions as the main cause. Like last time, many respondents (43%) refer to the negative attitude of doctors and the medical community towards the development of telemedicine. Doctors continue to favour classic healthcare with face-to-face appointments and are unwilling to provide consultations remotely. 33% of participants indicated low demand and the mentality of Russian citizens as the reason for the failure of such projects, while 19% stated that telemedicine was misunderstood and was an unworkable idea from the outset.
- ▶ In answer to the question “What needs to be done for telemedicine services to be more successful?” more than 50% of respondents pointed to the need for a review of the legislative and technical framework. Almost a third of survey participants named patient-



oriented measures, such as making sure that patients are fully informed of the capabilities of telemedicine, as key to its success. 23% of those surveyed indicated the need for doctor-oriented measures, including changes to the medical education system, and 27% do not believe in the future of telemedicine or consider that it may be workable in a very limited format.

- ▶ In discussing the future of telemedicine, 35% of survey participants stated that they saw no cause to expect changes over the next three years, and in some cases over the next five years. Almost a third expect changes in this area. 12% see telemedicine as a social service to be provided by the state to low-income people living in areas where there may be an insufficient number of skilled medical personnel. The same proportion again said that telemedicine was beneficial for insurance companies and it was they who were driving the development of this area. The majority of participants in the study are unanimous in the belief that there will be a demand for telemedicine as an element of customer service that offers convenience for patients, but that it would not become a profitable area of business for private clinics.

Prescription drug insurance

- ▶ In answer to the question “How do you view the initiative to introduce prescription drug insurance in the Russian Federation? Do you see it as an opportunity or a threat for private healthcare?” 38% said that they perceived no threat, while a further 31% had not yet evaluated the initiative. 27% of respondents were unable to answer the question, and only 4% said that they saw a potential threat.
- ▶ 27% of respondents regard prescription drug insurance as a necessary tool, while 12% took a negative view.

Creation of the unified digital network

- ▶ Of the 62% of respondents who commented on the question “Will commercial clinics participate in the creation of the unified digital network?” 87% said that all players in the commercial healthcare market would be involved in the creation of the unified digital network, while 13% asserted that the initiative would only affect private clinics that work in the CMI system.
- ▶ Almost a third of those clinics that gave comments stated that they would be compelled to participate. At the same time, 19% believe that private healthcare should take a leading role in the initiative.

The commercial healthcare market: demand, competition and projected outlook



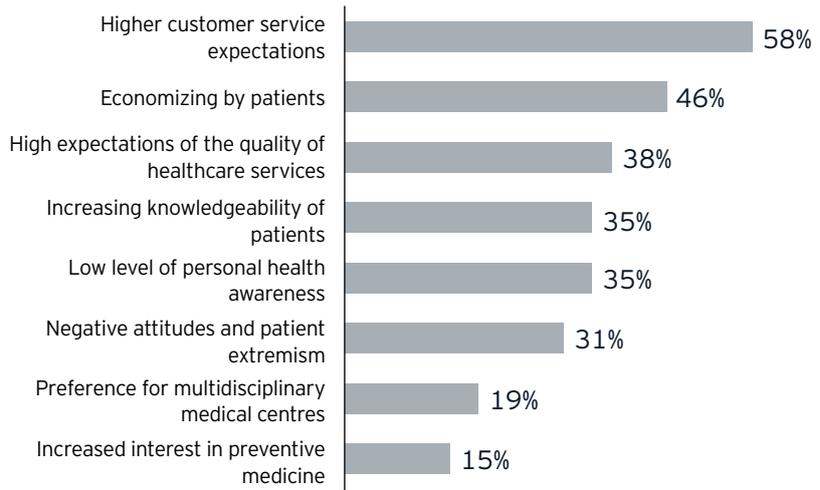
Changes in consumer preferences: trends and forecasts

On the subject of consumer preferences, 15% of participants in the survey observed that they had not observed any substantial changes over the last two years. Predictably, this opinion was expressed by representatives of private clinics in Moscow, where the commercial healthcare market has achieved a certain degree of maturity in terms of both supply and demand for healthcare services.

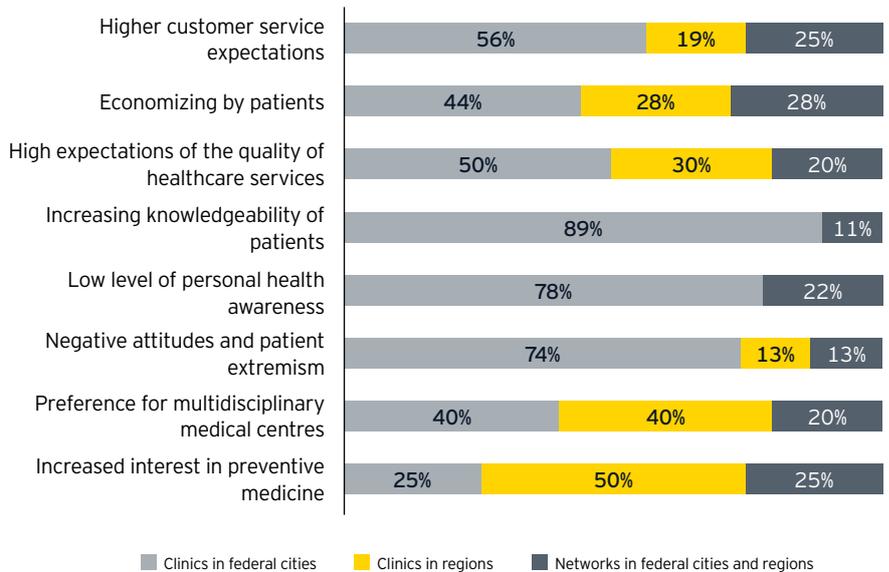
Overall, the behaviour of commercial healthcare consumers in 2018-2019 was to a large extent affected by factors such as the general economic situation, state healthcare policies and the expansion of the range of services offered by healthcare organizations themselves.

The majority of respondents note the following characteristics of consumer behaviour.

Demand for medical services: main trends in 2018-2019



Demand for medical services in 2018-2019: geographical distribution



Higher customer service expectations

58% of the healthcare organizations that completed our survey indicated higher customer service expectations as the main trend in consumer demand. The corresponding figure in our last survey was lower, at 41%. This indicates that the service element is becoming an increasingly essential criterion in the selection of paid medical services both in the major cities and in the regions: patients want to receive not only high-quality medical care, but also a high standard of service at all stages of interaction with a clinic.

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The consumer now takes high standards of service for granted, and notices when they are not provided rather than when they are.

Representative of a network of regional clinics

The survey participants attributed rising customer service expectations to a number of factors: the decline in consumer spending power, as a result of which patients are increasingly budget-conscious and look for maximum value for money; general trends in consumption, with the primary focus on the speed and convenience of receiving services and exceptional customer experience; the characteristics of millennials, who are becoming active consumers on the commercial healthcare market; and the high level of competition. Healthcare organizations in Moscow and St Petersburg noted that the state had likewise begun improving the standard of patient service in the outpatient sector (reducing waiting times, introducing online appointment booking systems, etc.), which could lead to some patients migrating to municipal healthcare institutions.

At the same time, the respondents observed that it was private healthcare that led the way in terms of new services and customer care elements, thereby shaping consumer preferences and giving themselves a competitive advantage in the battle for patients. At present, healthcare organizations are focused on satisfying two key patient expectations in the area of customer service.

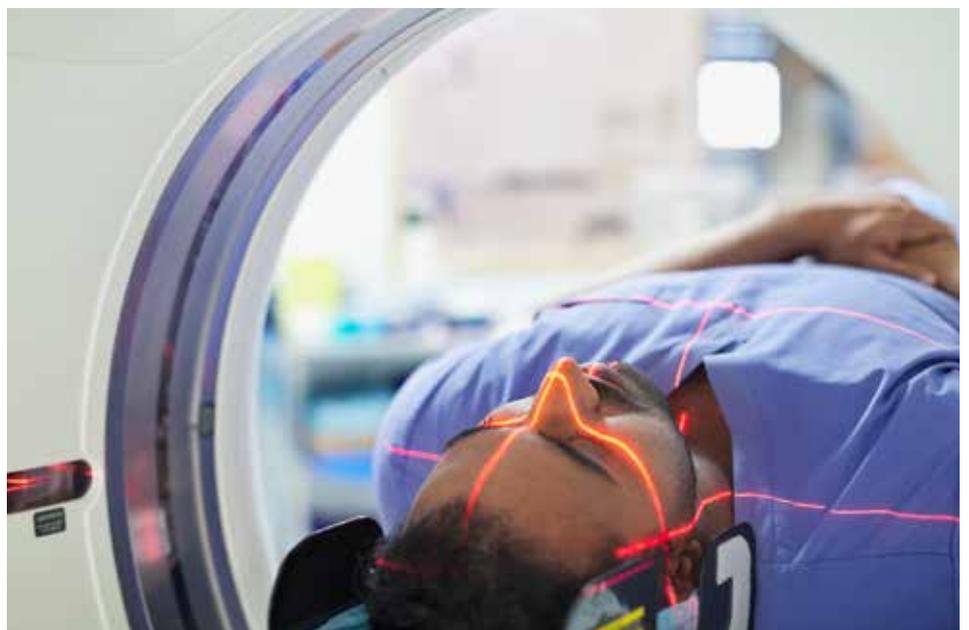
Provision of remote service channels/online services

42% of participants in the survey believe that, in the digital era, consumers attach increasing importance to the following elements of customer service: rapid access to information about a clinic and its specialists, as well as to their own medical history and test results; the ability to make appointments online whenever it suits them, which compares favourably with a call centre working set hours; the availability of online feedback channels. In this context, patients find it increasingly important to have access to tools such as online accounts and mobile applications, which bring together key functions for the consumer. Clinics that had put such services in place noted greater levels of patient loyalty and satisfaction as well as the increased involvement of patients in the service improvement process. Other healthcare organizations identified the creation of a personal account system or mobile application as a key objective in the immediate term.

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There is a greater demand for ease of interaction with clinics, including through a personal account or the use of mobile applications. This allows the patient to manage his own medical history, obtain information and have it independently reviewed or provide it wherever needed.

Representative of a network of federal city clinics

Some respondents also note a growing interest among consumers in telemedicine services, such as online consultations with doctors to clarify or adjust prescriptions. For the modern, time-conscious patient, being able to resolve some of their medical issues remotely is a convenient alternative to attending a clinic in person, but the broad development of these services is restrained by a number of factors. Issues surrounding the development of telemedicine are discussed in more detail in the “Current talking points in healthcare” section.



Effective communication at all stages of service provision

Many respondents pointed to the importance of good communication with patients, from the first contact with the call centre to information support after a visit to the clinic. In order to retain patients, healthcare organizations try to ensure that they receive an individual approach and attentive treatment in both online and offline environments, with the figure of the doctor playing a pivotal role in the latter instance. Over a quarter of those surveyed observed that patients nowadays expect doctors to have high standards of interpersonal communication as well as the requisite professional skills. This is because patients might not always be able to make immediate judgements about the quality of medical care provided, whereas the impression derived from communication with a doctor is formed at the first appointment and is difficult to change afterwards. This is why clinics are paying increasing attention to training doctors in effective communication as part of their efforts to improve the quality of customer service.

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Quality of communication and doctor involvement are no less important for customer retention than standard CRM tools. It is impossible to retain a patient if the doctor fails to communicate effectively with him. We attach great importance to the issue of good communication with the patient and have put in place an extensive training programme for doctors.

Representative of a network of clinics in the federal cities and the regions

Patient acquisition and retention tools are discussed in more detail in the “Development of healthcare organizations” section.

Economizing by patients

One of the key continuing trends over the last few years has been the decline in effective demand and economizing on the part of patients. This time round, 46% of respondents acknowledged this trend (compared with 48% in the last survey). The participants in the survey noted the different ways in which this trend was manifested.

Reduction of healthcare spending

Around 40% of respondents expressed the view that people were becoming increasingly pragmatic in terms of their spending as a whole and consumption of healthcare services in particular, and that this, in the context of the adverse economic climate, was reflected in particular types of behaviour.

According to the study participants, patients spend much time comparing prices for basic services or tests at different clinics, often using aggregators, and select the options that most suit them. Also, many prefer to go through state clinics under a CMI policy for those elements of medical services that do not require specialized technologies or skills (for example, fluorography, standard medical analyses, initial GP consultation) and then make an appointment with a specialist at a private healthcare organization for high-technology diagnosis or physiotherapy procedures. This approach enables patients to receive the medical care they need with minimum loss of quality while saving on non-value-added services, but the respondents emphasised that it was more characteristic of mainstream consumers, whereas more affluent clients preferred to receive the full range of services at a private clinic.

Despite the inclination to save money, patients continue to choose private healthcare organizations on account of their greater confidence in the quality, accessibility and customer care component of services provided by such organizations, as a result of which around 20% of the respondents noted another interesting trend observed mainly in large cities.

Patients attending a private clinic that is included in the CMI programme want where possible to receive medical care under the state-funded healthcare system, on the basis that they have a right to free medical services, even if they were previously willing to pay for the same service out of their own money. And healthcare organizations try to meet those requests in order to retain the patient's loyalty, even if it means losing out financially. A variation on this trend is the practice of combining multiple forms of financing of medical care.

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Patients are looking to rationalize their consumption: they are optimizing their expenditure on medical care and attempting to make maximum use of available financing options. Nowadays there are patients who receive services from us under the CMI and VMI systems and for cash.

Representative of a network of clinics in the federal cities and the regions

These factors led to the view being expressed that healthcare organizations have a competitive advantage if they have the capacity to serve patients using different mechanisms for the financing of medical services.

On the subject of economizing by patients, representatives of regional HCOs pointed to a trend among residents of Moscow and St Petersburg to seek services from regional clinics. For example, people who have moved to major Russian cities or abroad make plans to see medical specialists when visiting their native towns, since they are significantly cheaper than the same services in the cities where they are currently living. The respondents also noted the popularity of medical tourism among people travelling from the federal cities to the regions for expensive types of services such as plastic surgery and dentistry.

Reduced demand for packaged programmes and services

Two or three years ago patients were actively investing in their health. For example, they would purchase healthcare packages not only for themselves, but for their whole family, undergo full health checks, including as a preventive measure, and were ready at a moment's notice to opt for the best possible treatment at a private clinic or a range of plastic surgery services. According to 15% of respondents, over the last eighteen months patients have become more focused on one-time visits to deal with a specific problem, with the result that some healthcare organizations now derive a much lesser proportion of their revenue from prepaid programmes and packaged services.

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Patients are no longer open to the idea of buying a package and investing money in long-term service provision, explaining that they cannot afford it.

Representative of a network of clinics in the federal cities and the regions

Some study participants noted that this trend had had less impact on purchases of packages for children under three years of age, while 12% of surveyed organizations, mainly in the regions, stated that, on the contrary, they had seen increased demand among patients for packaged check-up programmes, prompting clinics to expand their range of healthcare products in this area. One argument in favour of consumers' interest in packaged offerings is the fact that they provide a better ratio of cost and medical value for the patient compared with one-off services.

High expectations regarding the quality of healthcare services

The provision of high-quality medical care is a default priority for healthcare organizations, especially in the private sector. 38% of respondents in the survey emphasised raised expectations among patients for high standards of medical services, noting that current consumer preferences for private clinics in terms of quality stemmed from the following factors.

Use of advanced technology in the provision of medical care

According to those surveyed, patients attach great value to the ability to undergo high-technology medical examinations and surgical operations, despite the cost of such services. The use of modern, high-precision equipment in diagnosis and treatment is still more accessible at private institutions than at state facilities, especially in the regions.

Effectiveness of healthcare services

Patients attending private clinics expect their health problem to be dealt with professionally, rapidly and with minimal need for repeat visits. Indeed, patients' expectations are sometimes so high that they may interpret perfectly reasonable referrals by healthcare specialists for additional tests or treatment as an attempt to push them into buying unnecessary services. The respondents also noted that patients have more confidence in the quality of paid healthcare when it comes to serious illnesses or particular fields (such as maternity, plastic surgery and dentistry).

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There is something in the Russian mentality that means a patient comes to a consultation and expects to be cured forever on the spot.

Representative of a federal city medical centre

High professional standard of medical personnel

The participants in the survey noted that patients were becoming increasingly selective about the reputation of doctors. For instance, they spend much time reading information and reviews about individual specialists obtained from the healthcare organizations themselves or through review sites and healthcare aggregators. The respondents also mentioned that patients had favourite doctors at different clinics, especially in fields where continuous care under one specialist is needed (e.g. gynaecology, paediatrics or chronic diseases). Since large private healthcare organizations are in a better position to attract and retain highly qualified personnel, this gives patients greater confidence in the quality of the services they provide compared with state healthcare institutions and small clinics.

At the same time, the vast majority of those surveyed indicated growing competition from state institutions for medical personnel, which may ultimately result in some patients moving away from private clinics. Issues surrounding competition are discussed in more detail later in this section.

The observations made by the participants in our survey about patients' preferences in relation to the quality of medical services are corroborated by the findings of a *BusinessStat* study in which the main factors cited by patients as driving their loyalty to commercial clinics were the high professional skill of doctors and effective treatment in the case of Moscow clinics and thoroughness of consultations, effectiveness of treatment, good price-quality ratio and high professional skill of doctors in the case of clinics in Russia as a whole².

² "Analysis of the healthcare services market in Russia in 2014-2018, outlook for 2019-2023"; "Analysis of the healthcare services market in Moscow in 2014-2018, outlook for 2019-2023". *BusinessStat*.

Increasing knowledgeability of patients

35% of the respondents say that over the last two years patients have become better informed about available healthcare services and what care they can expect to receive at particular healthcare organizations. It was observed that contributing factors in this regard included the implementation of the “Healthcare” national project, the active promotion of services by private healthcare providers and the appearance of a plethora of health-related Internet resources, including doctor search sites.

Patients increasingly compare the options available at different clinics and spend much time studying information about doctors and medical services, as well as generally available information about health problems and diagnosis and treatment methods. As a result, they become more knowledgeable, may try to get involved in the diagnosis and decision on appropriate treatment during a consultation and afterwards often check their doctor’s diagnosis and recommendations on the Internet without having the necessary expertise. The study participants observed that this involvement may lead to conflicts between doctors and patients and hinder effective treatment of an illness.

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Patients have rising expectations, especially in view of the availability of information on the Internet. Patients sometimes try to dictate to the doctor what needs to be done. But it is the doctor who has to take charge: he is aware of the standards on providing medical care and is obliged to observe them.

Representative of a federal city clinic network



HCO representatives observed that they would like to see the increasing involvement and knowledge of patients manifested in more constructive ways, such as in strict observance of doctors’ prescriptions or the taking of greater responsibility for their own health, including in terms of preventing illnesses.

Low level of personal health awareness

Closely related to the trend described above is the problem of the low level of personal health among mainstream patients, which was indicated by just over a third of the participants in our survey.

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Modern patients prefer not to come to the clinic not because they are reluctant to spend money, but because they do not have the time. It is easier to google the problem or seek advice from friends and acquaintances. On top of that, pharmacies sell a large variety of medicines. The self-medication trend is very strong.

Representative of a federal city medical centre

According to them, the majority of people are unaware of the need to look after their health, lead a healthy lifestyle or undergo regular preventive checks. 19% of respondents indicated the widespread use by patients of information found on the Internet to self-diagnose and treat their health issues as the most negative trend. This often results in a person opting for the wrong treatment, allowing his illness to progress to a serious stage and presenting to the doctor with acute symptoms. Interestingly, the self-treatment problem does not extend to children’s illnesses, as in those situations the parents seek to deal with the health issue as quickly and effectively as possible.



This trend is further corroborated by the findings of a survey of patients themselves. According to a BusinesStat report, self-medication was the main reason for patients not seeking medical care in 2018 (50.3% of those surveyed). Other reasons for not visiting doctors were poor service provided by healthcare organizations (27.7%), lack of time (26.1%) or doubts about the effectiveness of treatment (21.4%)³.

An interesting observation relating to self-treatment was made by representatives of a large clinic network: "In recent times we have seen the appearance of a large number of self-styled Instagram doctors who often have no medical education, and people have begun lapping up their posted content, advice, services, marathon events, and so on, without always understanding how appropriate or inappropriate it is from a health point of view."

Generally speaking, it would appear that Russian patients are unprepared for the participatory approach in healthcare: people are more inclined to place responsibility on doctors than to invest effort and discipline in relation to their health, which in turn constrains the development of preventive healthcare.

Negative attitudes and patient extremism

There were considerably more respondents this time (31%) than in our last survey who indicated an increase in the amount of negative feeling and aggression directed at private healthcare as one of the trends in consumer behaviour. They attributed this to the fall in consumer income, negative customer experience, media coverage, growing expectations and increasing knowledgeability of patients. Almost 20% of participants indicated that they had encountered instances of patient extremism/terrorism in their work.

The survey participants believe that patients attending a commercial clinic expect to be deceived and be pushed into buying additional paid services, which is partly due to the improper practices of certain healthcare organizations. In some cases, distrust of private healthcare prompts patients to employ "paired observation" methods by obtaining diagnoses and prescriptions from multiple specialists. Some private clinics that provide medical care under CMI stated that they feel general hostility from this category of patients towards the healthcare system and the quality of medical care, which they previously obtained from state healthcare institutions.

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Over the last eighteen months to two years there has been a lot of negativity whipped up in the mass media around healthcare, which is already a sensitive area, and especially around doctors at private clinics. This has sown feelings of distrust in patients towards our field of work.

Representative of a federal city medical centre

Almost 20% of the survey participants stated that they encountered manifestations of patient extremism/terrorism, such as when insurance patients try to exploit their insurance programme to obtain as many services as possible even though they have no medical need for them, or where commercial patients demand satisfaction of their grievances through financial compensation or lawsuits. According to a representative of a Moscow healthcare organization, in the latter case the situation is aggravated by the activities of certain legal firms, which offer to assist patients in resolving disputes. Another respondent observed that instances of patient extremism were most common in dentistry or plastic surgery, i.e. fields where the consumers can make their own judgment about the outcome of a service provided.

For these reasons, private clinics attach particular importance to handling negative feedback and complaints from patients: they organize quality control departments, provide various online and offline feedback services and respond promptly to any grievances, which helps them to retain clients.

³ "Analysis of the healthcare services market in Russia in 2014-2018, outlook for 2019-2023".

Preference for multidisciplinary medical centres

One of the major consumer preferences traditionally highlighted by healthcare organizations in our survey is the demand for a comprehensive range of medical services at a healthcare institution, which on this occasion was noted by 19% of respondents. Patients prefer to go to a clinic that provides a full range of medical services: from laboratory tests and consultations with specialized doctors to complex diagnostics and inpatient care. Attending a large multidisciplinary medical centre is convenient and saves time: for example, a patient can undergo a comprehensive medical examination or have a consultation with a specialized doctor immediately after receiving test results. This is a point on which private clinics differ favourably from state healthcare institutions, where obtaining such services is still problematic.

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It is preferable for the patient to be able to access the full range of healthcare services that he needs at a single centre, as this is more convenient and sometimes psychologically easier, for example when receiving IVF treatment.

Representative of a network of federal city clinics

When it comes to paediatric care, consumers tend to choose smaller clinics owing to the fact that it is less stressful to take children to places where there are fewer people.

Increased interest in preventive medicine

Despite the low level of personal health awareness referred to above, 15% of survey participants pointed to the growing popularity of preventive medicine among modern, forward-thinking patients who seek to remain healthy and active for as long as possible and do not want to spend time and money on treating illnesses. This engenders a demand for preventive healthcare services, including customized check-up programmes, non-traditional diagnosis methods and non-drug treatments, as well as relatively new healthcare fields (such as dietetics and genetics). The development of preventive healthcare is also driven by the spread of health-related mobile applications and the appearance of Big Data-based products in the field of biotechnology (blood screenings, genetic tests, etc.).

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Among the millennials, patients aged 30-40, it has become fashionable to take an active interest in healthy living, biohacking and everything connected with correct nutrition, diets and preventive genetic testing. There are more and more people willing to spend money on this.

Representative of a network of clinics in the federal cities and the regions

According to the respondents, the generation shift will inevitably lead to a greater demand for medical services that enable diseases to be prevented or detected at an early stage (screening, regular check-ups, vaccination) and greater involvement of patients in the management of their health, at least in the big cities. This is why some healthcare organizations are already offering or thinking of introducing products built around preventive medicine and healthy living in order to cater for the demands of the progressive consumer.

At the same time, there were also sceptical views among those surveyed to the effect that “preventive healthcare is just marketing that is not backed up by any real effective demand and has no medical value, while the various check-up programmes drive up average bills without any justification.”

Other trends

The respondents also mentioned the following trends in consumer preferences in 2018-2019:

- ▶ Patients choose healthcare institutions based on geographical convenience and prefer to receive follow-up care at their chosen clinic (the continuity principle).
- ▶ Affluent patients often want to pay for medical services for their parents.
- ▶ The trend of outward medical tourism is declining. There are fewer patients seeking medical care abroad, and people are increasingly likely to go to Russian clinics for treatment. At the same time, inward medical tourism is on the rise.

Changes in demand for medical specialties



The vast majority of our respondents have not observed changes in demand for medical specialties at their organizations over the last two years. This is because the survey was conducted among large multidisciplinary private clinics providing a full range of healthcare services, demand for which reflects morbidity rates in the population and patient preferences for regular care under particular doctors.

The survey participants observed that there is a minimum set of medical specialties that a multidisciplinary polyclinic must have: general practitioner, paediatrician, ENT specialist, neurologist, cardiologist, gynaecologist, gastroenterologist and urologist. At the same time, large clinics tend to have an extended range of specialists with a relatively even workload, while at small polyclinics some specialties may be unavailable and there may be shifts in demand for particular doctors as a result of marketing activities (promotions, discounts, etc.).

According to those surveyed, the pattern of demand for particular types of treatment at large multidisciplinary healthcare centres may be affected by factors such as the development of a clinic's competencies, the recruitment of well-known doctors, the introduction of the latest technologies and new treatment methods, the active promotion of a particular service, trends in the state healthcare sector and the involvement of a private healthcare organization in the CMI system.

Key trends

The respondents' observations indicate that there is still a high demand in paid healthcare for specialized doctors who can be seen at short notice in the event of acute symptoms (neurologists, gastroenterologists, ENT specialists, rheumatologists). Notably, 75% of respondents who observed this trend are clinics operating in the federal cities. This shows that, despite the modernization of the healthcare system in those cities, there is still limited availability of specialized doctors in state clinics, and patients are more inclined to trust doctors at private clinics.

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The general tendency in state healthcare is for patients not to be referred to specialized doctors but for treatment to be channelled through a general practitioner or paediatrician. This is why people go to private clinics.

Representative of a federal city
medical centre

Representatives of one healthcare organization also mentioned a recent development whereby patients save money by having basic tests done without a prescription and then taking the test results to a specialized doctor, which is inadvisable from a medical perspective.

Over 60% of participants in the survey identified general practitioners among the most in-demand medical specialists at private healthcare institutions, which is due to a number of factors. Firstly, a patient is often unable to diagnose his own problem, and therefore needs an initial general consultation to determine what kind of specialized treatment is required. Secondly, the policy of directing more patients to general practitioners at state polyclinics has led to an increased burden on doctors, while the standard consultation time of 10-15 minutes is not enough to provide a patient with high-quality medical care, gather background information and make an appropriate diagnosis. Thirdly, there is currently a shortage of state sector primary care in the regions, partly due to a lack of qualified personnel, and patients are therefore forced to turn to private healthcare institutions for help with their problems.

Some respondents also pointed to the popularity of dual-speciality GPs (e.g. GP/cardiologist, GP/pulmonologist, GP/gastroenterologist). This enables patients to receive a dual consultation in a single appointment, while healthcare organizations benefit from the high utilization rate of such doctors.

The 10 most in-demand specialists at a private clinic*

1	General practitioner
2	Gynaecologist
3	Paediatrician
4	ENT specialist
5	Neurologist
6	Gastroenterologist
7	Cardiologist
8	Urologist
9	Endocrinologist
10	Oncologist

* Specialists have been selected and ranked according to mentions made in the responses of the survey participants.

Besides general practitioners, the study participants noted that there was, as usual, a high demand in the outpatient sector for gynaecologists and paediatricians (58% and 46% of respondents respectively). This is due to the need to make regular visits to such doctors and the high level of loyalty towards individual specialists. In terms of inpatient care, the respondents point to high demand in the areas of gynaecology, urology, gastroenterology, proctology, ophthalmology, phlebology and plastic surgery.

Some representatives of healthcare organizations also said that when it came to surgical interventions, such as in the area of orthopaedics, plastic surgery, ophthalmology or vascular surgery, private healthcare patients tend to seek treatment from a specific well-known specialist, i.e. they attach great importance to a doctor's reputation.

42% of the survey participants highlighted the popularity of diagnostic services, such as instrumental examinations (ultrasound, MRI, CT, mammography, endoscopy), which provide a steady flow of commercial patients to healthcare organizations. Demand for such services was especially noted by representatives of clinics in the regions, where there is still a shortage of modern equipment in the state sector. In Moscow and St Petersburg, despite the increasing availability of high-technology equipment at state polyclinics, patients are motivated to choose a private clinic by the lack of waiting time and the desire to obtain an immediate consultation on test results with a specialized doctor. At the same time, since the high cost of tests such as MRI and CT scans may limit demand from private patients for such services, many private clinics provide them as part of state quotas for high-technology medical care in the area of diagnostics.

Another growing service line at healthcare organizations owing to their participation in state CMI is oncological care (chemotherapy, radiation therapy, cancer surgery). Areas of participation of private healthcare organizations in the CMI system are discussed in more detail in the "Partnership with the state" section.

The respondents were divided in their opinions about demand for restorative healthcare services (physiotherapy, manual therapy, rehabilitation): representatives of some healthcare organizations observed that demand for such services had lessened over the last few years, partly due to their exclusion from VMI programmes. At the same time, 12% of the study participants referred to a growing market need for such healthcare and the appearance of new, progressive technologies in this area.

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With more and more younger people affected by cardiovascular diseases and cerebrovascular disorders, rehabilitation services are in demand. We now have new technologies, such as telerehabilitation, which are more effective than the classic methods, and we are focusing on developing these.

Representative of a network of clinics in the federal cities and the regions

However, the respondents agreed that rehabilitation is often an unprofitable area of activity for private clinics owing to low margins and high equipment costs, which hold back the mass proliferation of such services on the private healthcare market.

Medical specialties indicated by the survey as enjoying increased demand and having the potential to earn more revenue for private clinics included allergology/immunology and psychology/psychiatry, each identified by 12% of respondents. In the latter case, the study participants linked the growing demand to the high pace of life, increased incidence of job burnout and the greater openness of the modern generation of patients to this type of medical care. However, they highlighted the problem of attracting qualified clinical psychologists and psychiatrists.

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On the subject of fashionable trends, there is scope for expanding services in the area of allergology and immunology, because the number of first-time allergic reactions is growing every year.

Representative of a network of clinics in the federal cities and the regions

Prospective medical specialties and fields

Some of the survey participants believe that the growing consumer interest in preventive medicine presents opportunities for the development of related services at their healthcare organizations. For instance, some respondents referred to the current importance of genetics and the high potential for using genetic testing for early disease detection and preventive treatment, as well as in planning pregnancies.

Other HCO representatives said that they planned to launch services in the area of dietetics/clinical nutrition in response to patient demand. As they see it, the healthy lifestyle trend has spawned a plethora of non-professional advisors on healthy nutrition, and people who have had negative experience of this but are interested in adjusting their diet and lifestyle are willing to seek advice from competent specialists at private clinics. Survey participants that already offer dietetics services noted a high demand among patients for consultations with endocrinologists and dieticians.

Some respondents believe that another field that will gain in popularity among forward-thinking patients in the next two or three years is specialist advice on the monitoring and interpretation of data obtained from various wearable health devices. This will mean increased demand for specialists such as cardiologists, endocrinologists and allergists/immunologists who have the skills to interpret digital data and communicate effectively with patients. Consultations of this kind may become part of telemedicine services.

The respondents said that the main problem encountered in launching new service lines is the shortage of qualified staff, which is due partly to the failure of the state medical education system to respond to the needs of the market and partly to the passivity of doctors themselves when it comes to retraining and acquiring new skills.

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I cannot say that doctors do additional training. They behave passively. And it is usually doctors and the new skills they acquire that drive the development of new service lines.

Representative of a network of clinics in the federal cities and the regions

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The family doctor who knows every detail of a patient's health and dispositions and is able to talk in medical language with geneticists and dieticians is a worldwide trend, and we try to support it. A person should have a doctor who helps him look after all aspects of his health, not a collection of different specialists who are popular one day and out of favour the next.

Representative of a network of clinics in the federal cities and the regions

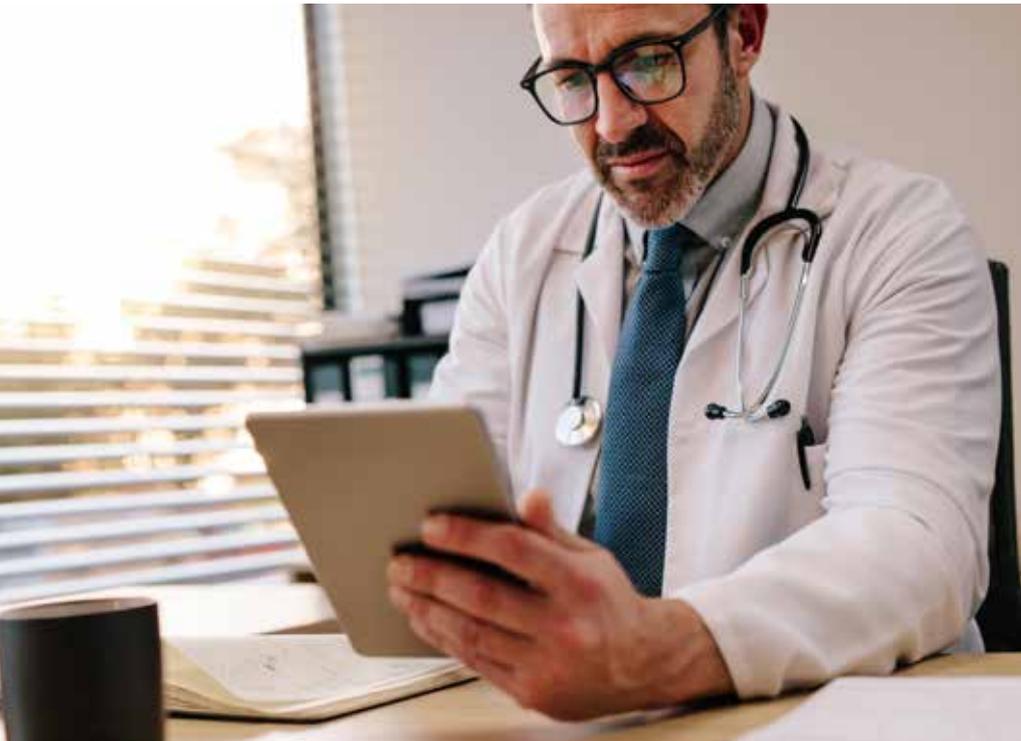
It appears overall that the majority of the surveyed healthcare organizations do not plan to develop new service lines, including those mentioned above, owing to doubts about their medical effectiveness, restrictions imposed by their current medical licence or a perceived lack of commercial demand for the services concerned.

A representative of a private HCO in Moscow observed that, despite the growing popularity of genetics and dietetics, when the clinic attempted to launch those service lines it found it difficult to attract enough demand for consultations with the relevant specialists. Given the relatively high cost of an initial consultation, people do not see such services as essential and are unwilling to pay for them.

The same opinion was expressed by a representative of a network of clinics in the federal cities and the regions: “At present, while there is an active interest in non-professional nutrition consultants on the Internet, patients do not want to spend on money on a consultation with a nutritionist, while dietician services are associated with treating a serious illness”. The respondent emphasised that preventive healthcare should be provided through the family doctor, who regularly monitors individual patients and helps them manage their health.



Differences in demand for healthcare services in the federal cities and the regions



According to the study participants, the main factors behind the differences in demand for healthcare services in Moscow and St Petersburg compared with the regions are the level of effective demand, the competencies of healthcare staff and the level of development of state healthcare.

People living in the federal cities tend to be more selective about health and treatment matters and have high expectations of customer service and the quality of medical care. The large amount of competition and wide range of services on the commercial healthcare market, the active participation of private clinics in the CMI system and the improvement of standards of service at state healthcare institutions mean that patients in Moscow and St Petersburg are able to choose a healthcare facility and doctor

according to their financial means and preferences. People in those cities have a larger choice of high-quality medical care, exert high demand for and have ready access to high-technology diagnosis and treatment methods and are more inclined to purchase preventive healthcare services. In large regional cities there is a gradual trend in favour of the use of paid healthcare services, but the lower levels of disposable income mean that patients still prefer to go to state institutions for a large proportion of medical care. According to the respondents, the elements of commercial healthcare most in demand in the regions are instrumental diagnostics, laboratory check-up tests, female and reproductive health services (IVF under the CMI system) and high-technology dentistry, and there is a growing interest in plastic surgery and healthy living services.

It was also observed that demand for highly specialized service lines often differs from one region to another according to local morbidity rates.

Some survey participants referred to the declining income levels of inhabitants of Moscow and St Petersburg as the cause of the trend for patients from those cities to travel to regional clinics in search of cheaper prices for certain healthcare services. Inhabitants of the regions, meanwhile, display the opposite tendency: they are willing to travel to the capital cities in search of skilled and reputable doctors owing to the fact that most of the best specialists are found in those cities.

The respondents also observed that problems in healthcare provision are most acute in low-income regions of the country, where there is a deficiency of primary healthcare and high-technology medical care, a lack of modern equipment and qualified specialists and significantly less availability of private healthcare. As a result, inhabitants of such regions have the most limited access to modern, high-quality diagnostics and treatment. The respondents believe that the implementation of the "Healthcare" national project and cooperation between the state and private organizations in developing healthcare should help to address this problem.

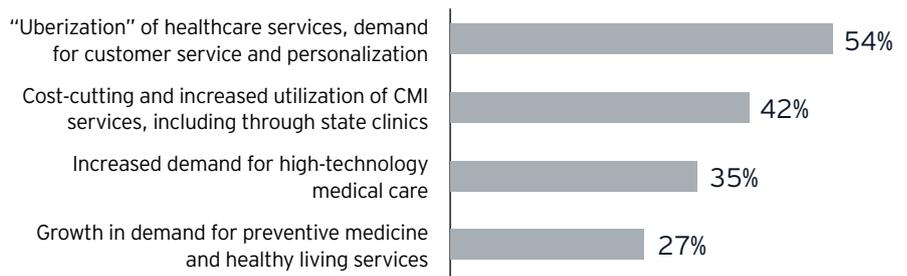
Expectations regarding the future development of demand for healthcare services

In answer to the question about expected changes in demand for healthcare services over the next two or three years, 38% of the study participants expressed the view that current trends on the commercial healthcare market would continue. The respondents observed that the behaviour of consumers of healthcare services would largely depend on consumer demand as well as on the development of the state healthcare system and the accessibility of medical care at state healthcare institutions. It is possible to identify four key trends in consumer preferences that will shape the consumption of healthcare services over the next few years.

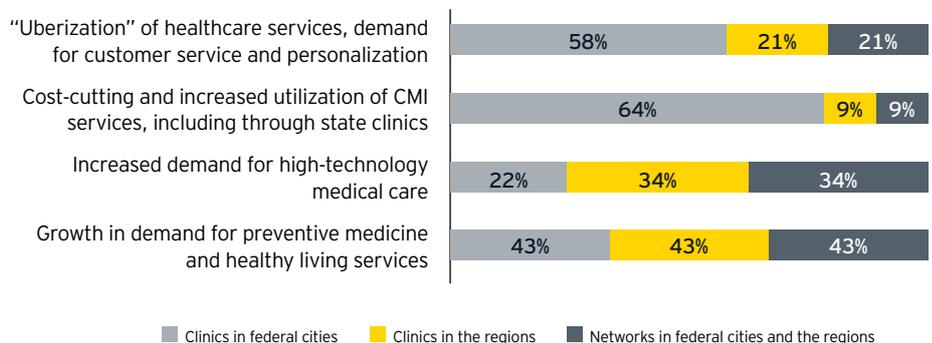
“Uberization” of healthcare services, demand for high-quality customer service and personalization

Over half of the healthcare firms surveyed see the rise in patient demand for high-quality, personalized customer service as the principal trend. Representatives of one large clinic network observed that healthcare is becoming increasingly “Uberized”, meaning that patient priorities lie in timesaving, digitalization and a high level of comfort and satisfaction in receiving services. This tendency may be expected to develop as consumption of paid healthcare shifts to the younger generation, which is accustomed to using modern technologies.

Demand for healthcare services: forecast for the next two to three years



Predicted demand for medical services in the next two to three years: geographical distribution



This means that there will be increasing demand among commercial patients for digital services such as:

- ▶ the ability to choose a doctor and book an appointment online via a website or mobile application;
- ▶ remote communication with clinics, including instant feedback tools;
- ▶ a personal digital profile with access to medical records and test results, a

loyalty scheme and extended healthcare management functions (such as reminders of the need to make an appointment or attend a check-up, health monitoring, medication schedule, etc.);

- ▶ online consultations with a doctor (comments on test results, adjustment of treatment, monitoring of observance of prescriptions).

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Patients want to spend as little time as possible on receiving services, which is why the main feature of commercial healthcare is accessibility. Everything has to be done to make medical services as accessible for possible for patients in terms of price, convenience and time, including through the use of online services and applications.

Representative of a network of federal city clinics

Another prospective trend as far as customer service is concerned is the personalization of healthcare services according to the specific health needs of an individual patient. At present, most people are not inclined to undergo regular health monitoring and do not have the skills to assess their own state of health and possible risks, with the result that they often have advanced symptoms by the time they present at a clinic. Furthermore, consumers do not always have sufficient information about the various medical services that might be suitable for them.

For their part, healthcare organizations accumulate a large amount of data about patients, which they are able to use to make individual recommendations about the diagnosis, treatment or prevention of diseases. For instance, some respondents mentioned potential demand for targeted screening programmes, chronic illness management or annual care plans with competent specialists among a growing range of people with concerns about their health.

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Our service programmes can be tailored to a specific situation. We do not practise an approach based on nameless patients and general incidence trends. We try to personalize our healthcare offering and give the patient all the information he or she needs.

Representative of a network of federal city clinics

The development of online services and personalized healthcare will on the one hand lead to the greater involvement of consumers of healthcare services in the treatment of their problems and the management of their own health, and will on the other hand help increase their loyalty to private healthcare organizations.

Cost-cutting and increased use of CMI services, including through state clinics

Just over 40% of participants in the survey thought that the decline in effective demand would continue in the next two to three years. As a result, they predict a reduction in the number of commercial patients going to private clinics for routine matters that can be put off, coupled with higher demand for free healthcare and increased patient flows to state healthcare facilities. This behaviour is most likely to be manifested by consumers with average and below-average incomes.

36% of respondents who indicated this trend believe that patients will go to state healthcare centres primarily for expensive inpatient medical care or will try to obtain that care at private clinics through a territorial CMI programme. The remaining respondents think that increased numbers of patients will be seen in the state outpatient/polyclinic sector – mostly in the form of people seeking initial consultations and basic tests. Overall, the survey participants noted that the choice that consumers make in a given situation will be influenced by their financial means, their sensitivity to standards of customer service and the nature and seriousness of their health problem.

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The decline in effective demand is set to get worse. Where there is a specialist at a state clinic who can be seen through the CMI system and it is not an emergency, there will be more people willing to wait and sacrifice customer service because money is tight.

Representative of a network of clinics in the federal cities and the regions

It is worth noting that the possible migration of patients from the private to the state sector was most talked about by representatives of healthcare organizations based in Moscow and St Petersburg, which reflects the improved accessibility of state healthcare in those cities. It is less of an issue in the regions, because the majority of people there primarily use free healthcare services.

Increased demand for high-technology medical care

Over a third of the respondents expect a further increase in consumer demand for high-technology medical services provided at private clinics. They attribute this partly to the growing use in private medicine of highly effective instrumental tests in place of obsolescent diagnostic methods such as X-ray and fluorography, which are still widely used at state facilities.

While patients in Moscow and St Petersburg are increasingly able to receive high-technology care free of charge, either through state healthcare centres or through private medical firms participating in CMI, patients in the regions can usually only access high-technology diagnostics and treatment through a private clinic. Despite limited household budgets, representatives of regional healthcare organizations point to a growing demand for various kinds of instrumental tests (ultrasound, MRI, mammography) and surgical interventions at private hospitals.

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We are seeing a high level of interest in tests carried out using modern, high-precision, sophisticated equipment, even though they are more expensive than traditional tests. In our view, the reason for this is that, as far as the patient is concerned, the difference in the result obtained significantly outweighs the difference in price.

Representative of a network of regional clinics

On the subject of future demand for healthcare services in the federal cities, some study participants took the view that there would be a greater demand among consumers, primarily in the high-income brackets, for innovations and new technologies in private medicine, and in particular for high-technology screening services to detect diseases that can be cured in the early stages (cancers and cardiovascular diseases) and treat them using minimally invasive surgical methods. Other respondents believe that there will be continued growth in the use of private clinics for instrumental diagnostics (CT, MRI, PET), including under the CMI system, and for laser cosmetic surgery, laser proctology and reconstructive surgery.

Growth in demand for preventive medicine and healthy living services

Despite the doubts that many respondents have about the potential for the development and commercialization of preventive medicine, 27% of the survey participants consider that the trend towards healthy living and disease prevention will grow, which will result in increased demand for services of private clinics in this area.

HCO representatives believe that this will be due partly to the expansion of the category of people interested in various aspects of healthy living (correct nutrition, fitness, preventive testing) and willing to invest in their health and longevity, and partly to state healthcare policies, which place much focus on regular check-ups and the promotion of healthy living. Some respondents thought it possible that legislative measures may be taken to encourage employers to carry out regular check-ups and screenings based on employees' ages under the VMI system owing to the fact that, for various reasons, a large proportion of the working population does not undergo regular examination under CMI. Some HCO representatives said that the intense mass media coverage of the health problems of

celebrities also has a psychological effect on people by making them think more about their own health, which may lead to an increased demand for preventive tests.

For this reason, a number of study participants expect to see an increase in the number of patients seeking preventive care and healthy living services, primarily through personalized packaged diagnostic testing programmes, specialized screenings, dietary services, anti-ageing therapy and specialized preventive health programmes (such as exercise therapy and Nordic walking).

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We are now seeing demand for consultations with doctors specializing in integrative preventive healthcare and for personalized diagnostics and treatment. This field is set to grow.

Representative of a network of regional clinics

Representatives of a large medical centre observed that they would like to instil a preventive healthcare trend in their patients, but this was largely inhibited by people's tendency to self-medicate and go to the doctor after they have developed illnesses. They also emphasised that the development of preventive healthcare was dependent on the availability of appropriate information technologies, such as an advanced CRM system, big data collection and analysis technologies and lifestyle monitoring tools, which make it possible to identify potential risks for a specific patient and generate personal recommendations about the need for tests or other preventive steps.

Expert Comments

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The most notable trend on the private healthcare market is the rising demand among patients for good customer service. This is an area in which healthcare still lags behind other industries, such as the financial sector or trade, which is partly because patients are used to sourcing most of their medical care from state institutions. While in Moscow there has been significant progress in the development of customer service in the state sector, the same cannot yet be said for the country as a whole. Patients in search of good service go to private clinics. In European countries high-quality medical care is a given, and the focus is shifting to non-medical services as a source of profit for clinics. In Russia there is not yet a clear understanding of what such services entail.

In terms of customer service, there is a clear emphasis on strengthening the IT element, and particularly telemedicine: the provision of test results, doctor consultations and “second opinion” services via online channels. With growing expectations about the speed of service delivery, services of this kind are increasingly seen by patients as an essential element of healthcare provision. It is likely that, two or three years from now, not offering this type of service will significantly impair a healthcare organization’s competitiveness. Telemedicine does not have to be introduced from scratch, as it is now possible to link up with existing specialized services, but clinics must be able to use these technologies.

On the subject of the appearance of new specialties and growing demand for them, it is worth pointing out that Russia is in step with global trends set by institutions such as the World Health Organization. Our leading doctors are actively involved in international conferences and dialogue on topical healthcare issues. This decade has been devoted

to combating excess weight and the problem of sugar diabetes, as reflected in the development of the healthy lifestyle trend, which is a key factor in preventing and overcoming such illnesses. Accordingly, the notion of preventive healthcare and looking after one’s own health is gaining ground at both state and private level. The influence of these trends is gradually changing people’s attitudes, which may result in a demand for services in specialized areas such as dietetics and genetics. As time goes on, we will see more progress in these areas, but it is important to emphasise that these changes have to be driven by doctors, and given their somewhat conservative attitudes it would be wrong to expect any sudden leap in either demand or supply.

Over the next few years digital technologies and customer service will become increasingly important elements of healthcare, and we will see the same trend towards personalization as in other areas of consumption. Patients will have more wearable gadgets providing them with accurate real-time information about their health, which will help improve disease diagnosis.

Interestingly, the trend towards healthy living, digital health devices and so forth is making people better informed, thus achieving one of the objectives of the national project to increase longevity. But the longer people live, the more illnesses might befall them, whether genetic, acquired or age-related, which in turn creates demand for gerontology and home-based care services. This is an area in which we lag behind Western countries. And since the private sector is better at responding to market demand, we are gradually seeing the appearance of commercially run care homes for the elderly and specialized rehabilitation centres. The problem is that they are

targeted at people in a limited income bracket, whereas in developed countries healthcare of this kind is paid for by the state. Thus, the growing demand for old age care services significantly exceeds supply, and partnership between the state and private healthcare organizations will be essential for Russia to make progress in these areas and satisfy market demand.

Alexander Grot

President of the Association of Private Clinics in Moscow and the Central Federal District

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In terms of trends in the preferences and behaviour of consumers of paid services over the last three years, one thing that can be said is that there are far fewer accusations of “money-grabbing” in the negative reviews we receive from patients, which indicates that, on the one hand, clinics and doctors are observing proper standards, and on the other, patients have become wiser and more experienced.

Trends in the last year indicate that:

- ▶ patients of less expensive clinics have become more price-sensitive, as shown by the upsurge in patient flows when consultation prices are lowered;
- ▶ patients are interested to know what types of equipment a clinic has, and this is one of the significant factors in their choice of clinic;
- ▶ there are fewer negative reviews than last year about the standard of service at clinics.

Dmitry Petrukhin

General Director and founder of the DocDoc online doctor search platform

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In the major cities – Moscow and St Petersburg – there is a very noticeable trend towards the combining of healthcare and lifestyle products. There is greater interest in mental health services and bespoke dietary and wellness programmes, which was partly set off by the biohacking craze. I think this trend will continue, and there will be a growth in demand for services aimed at keeping people healthy rather than treating illnesses.

Mark Sanevich

General Director and co-founder of BestDoctor

The voluntary medical insurance market: trends and forecasts



According to the study participants, the situation on the VMI market is largely defined by general negative trends in the economy and the high dependence of the market on the capabilities of the corporate sector. As a result, the market has continued to stagnate in relative terms over the last few years with low, inflation-based growth. Cost-cutting by employers on VMI has resulted in intense price competition between insurance companies and the transfer of portfolios of insured persons from one to another. This in turn puts increased pressure on healthcare organizations that have an interest in handling VMI patients. Despite this, half of the respondents reported that in 2018-2019 they had retained a large proportion of their VMI patients or increased the number of registrations from insurance companies. This is largely due to flexible arrangements with the latter and a high degree of loyalty on the part of patients themselves.

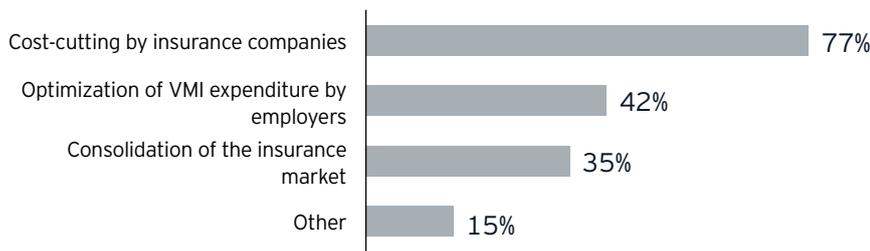
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Because there is almost no change in the quantity of patients – no population growth and little economic or business growth, the only movement you have in this situation is redistribution. Much depends, therefore, on what impression you make as a potential partner for insurance companies and on the patient as the end consumer.

Representative of a medical centre
in a federal city

As in the last study, the surveyed companies identified the following key trends on the voluntary medical insurance market.

Trends on the VMI market in 2018-2019



Cost-cutting by insurance companies

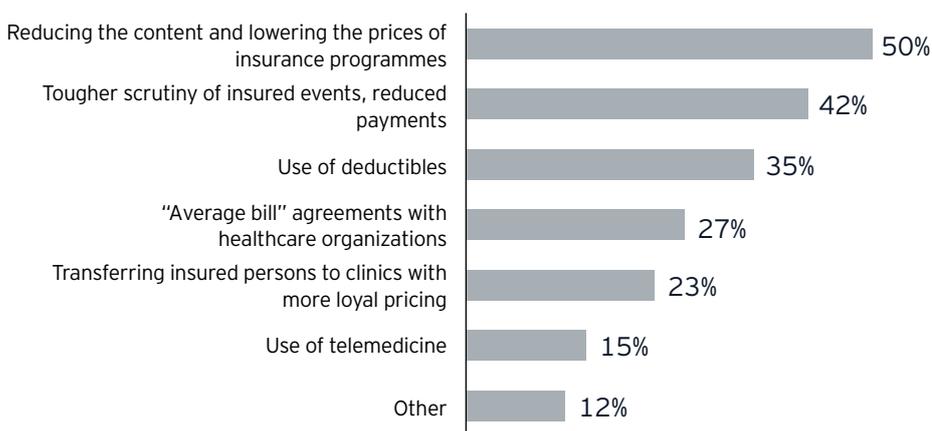
As a result of budget reductions by employers, insurance companies are compelled to offer lower-cost VMI services in order to compete for clients. As a result, the majority of participants in the survey report that in the last few years insurers have been mainly focused on managing their costs and keeping margins at an acceptable level. The respondents observed that insurance companies use various instruments for this purpose, many of which reduce the margins of healthcare organizations themselves.



Insurance companies are seeking and testing new types of arrangements with healthcare organizations aimed at reducing the insurer's costs in connection with insured events and lowering risks for insured parties.

Representative of a network of clinics in the federal cities and the regions

Ways in which insurance companies reduce costs



Reducing the content and lowering the prices of insurance programmes

Half of those surveyed report that over the last few years insurance companies have tended to reduce the amount of medical services that clinics can provide under VMI programmes, request substantial discounts from healthcare institutions when concluding agreements on the registration of VMI patients and put pressure on healthcare organizations during annual pricing reviews and while insured persons are being treated. Many representatives of healthcare organizations said that they try to meet insurance companies' demands (refrain from raising prices for medical services under VMI, comply with average bill limits for insurance patients, etc.) in order to maintain good relations with them and increase the number of patient registrations. The respondents additionally commented that insured persons treated under limited programmes sometimes had to pay extra for procedures and services essential to their treatment, which may result in negative feeling on the part of patients towards the clinics themselves.



Insurers want to predict their losses while placing the burden of calculating a patient's treatment costs on the clinics. The lower the average bill, the more favourably disposed they are towards us and the higher our position on the list of partner healthcare organizations.

Representative of a network of regional clinics



Some study participants observed that the area most affected by the trend of cutting insurance programmes was restorative healthcare, since those services are either excluded from basic VMI policies or are greatly curtailed.

Tougher scrutiny of insured events, reduced payments to clinics

42% of respondents indicated that insurance companies have become more pragmatic in settling with clinics and use various methods of optimizing payments. Some say that there is a greater number of refusals to approve certain medical services for VMI patients and more frequent problems over the approval of expensive diagnostic tests. Others pointed to the more rigorous evaluation of bills for VMI services and reduced payments to healthcare organizations where the insurance company believes that prescribed treatments are unwarranted, even if they make sense from a medical point of view.

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Clinics and insurance companies have different aims. The aim of a healthcare organization is to provide good medical care and receive money for it. The aim of insurance companies is to avoid paying money. Problems often arise over the approval of high-cost tests, such as biochemical testing, ultrasound and gastroscopy, not to mention MRI.

Representative of network of clinics in the federal cities

The surveyed companies generally observed that the need to comply with medical standards and treatment protocols was a strong argument when it came to defending budgets to insurance companies. However, when paying for standard medical services relating to a primary disease, insurers often do not take account of particular factors involved in the treatment of a specific patient.

Use of deductibles

35% of participants in the survey noted that the last two years have seen an increase in the number of insurance programmes with deductible elements whereby a portion of the cost of medical services under the VMI policy is paid by the employee himself. Respondents believe that the co-payment system benefits insurance companies both by reducing the amount they have to pay to clinics and by encouraging more considered behaviour on the part of patients, since they are more likely to limit the number of visits under such a scheme. In our 2016-2017 study only 21% of surveyed companies noted a trend towards deductibles, which indicates that such policies have begun to be more widely used by insurance companies.

Respondents emphasised that insurance plans with a co-payment element were most popular among employees of foreign companies or those of foreign origin. This in turn explains why the trend is prevalent in federal cities and is not mentioned by regional healthcare organizations. It is also worth noting that the number of private clinics that take a positive view of

treating insurance patients under policies with a deductible element has increased compared with the results of the last survey.

“Average bill” agreements with healthcare organizations

27% of respondents said that the most negative tendency in the behaviour of insurance companies was the shift towards so-called stop-loss arrangements with health institutions, i.e. agreements whereby the clinic receives a fixed sum to treat registered patients and must itself ensure that the cost of medical services provided to a VMI patient does not exceed the average bill amount under the agreement. This way, insurers not only have much less administrative work to do than when paying clinics based on services actually provided, but also leave it to the healthcare institutions to shoulder the financial risk.

According to the surveyed companies, the main victims in this situation are the patients, as the healthcare organizations most willing to operate under such advance payment schemes tend to be of the unscrupulous kind: after receiving money from the insurance company, they treat a certain number of insured persons, but when the budget runs out they begin to use various tricks (i.e. they refrain from prescribing tests, referring patients to specialists, etc.) or charge insurance patients for services.

Transfer of insured workers to clinics with more loyal pricing

Around a quarter of the survey participants observed that one of the ways in which insurance companies lower their costs is by transferring insured workforces to healthcare organizations with lower price levels, and therefore lower average bills for patient care. As a result, it is increasingly common to see the involvement in VMI programmes of small private healthcare networks and clinics with the ability to undercut larger players, as well as state healthcare institutions. At the same time, some employers insist on keeping the clinics they know on the list of

HCOs used to treat their employees and are willing to accept deductibles or scaled-down insurance programmes to this end.

Notably, this trend was only mentioned by representatives of healthcare organizations in the federal cities. In the regions, meanwhile, the level of competition on the private healthcare market is lower, and insurance companies have a narrower choice of clinics to include in their VMI programmes.

Use of telemedicine

According to 15% of those surveyed, in the eighteen months to two years since the entry into force of the federal law on telemedicine there has been a marked trend in the use of telemedicine technologies by insurance companies with a view to reducing the cost of VMI healthcare provision. There are ever more insurance programmes that include options to receive remote consultations with general practitioners, paediatricians and specialists, an expert opinion on an existing diagnosis (a “second opinion” service) and interpretations of analysis and test results. As well as savings afforded by the lower price of such online services compared with face-to-face appointments at clinics, telemedicine also provides an effective way for insurance companies to determine whether a given case constitutes an insured event.

However, the survey participants also noted that the use of telemedicine by insurance companies under the VMI system, including in the regions, is currently limited by the low number of healthcare organizations that have the competencies and necessary infrastructure to provide medical services online.

Other tools

12% of the respondents also mentioned the following tendencies among insurance companies in 2018-2019:

- ▶ the conclusion of annual contracts with providers of specific services (e.g. lab tests, MRI, CT) on the basis of a tender. This enables the insurance company to

reduce its costs for a particular service by having a low, predetermined price for the year rather than having to negotiate the provision of that service to a VMI patient at a private clinic in each individual case;

- ▶ the organization of “office doctors”: a GP working at an employer company’s office for a fee set by the insurer conducts an initial consultation and refers the VMI patient to specialists if necessary, thus enabling savings to be made on initial consultations.

Optimization of VMI expenditure by employers

- ▶ The study participants observed that since 2015, companies have been reducing their budgets for staff healthcare cover. This means that employers are paying lower amounts of insurance premiums (or paying the same amounts while prices for healthcare services increase), scaling down insurance programmes (for instance by limiting cover for relatives and children), more readily agreeing to VMI programmes featuring deductibles and sometimes even declining to insure their employees at all. According to some respondents, the “direct corporate client” segment, meaning small workforces that purchase VMI policies directly from healthcare organizations, is disappearing from the market. Others observe that some employers have begun to monetize the social package for their employees, issuing it in the form of money so that they can arrange their own healthcare.

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Over the last few years, companies holding VMI policies have been scaling down their programmes, for instance by leaving some employees out of the policy or trying to reduce their premiums or receive a greater range of services for the same money.

Representative of a network of federal city clinics

- ▶ Some representatives of healthcare organizations, mainly from the federal cities, attributed the tendency among companies to seek savings on VMI partly to changes in the state healthcare sector. Since employers already make CMI contributions, hearing about the increased accessibility and quality of medical care at state healthcare institutions causes them to question whether it makes financial sense to incur additional costs for VMI cover. Some survey participants observed that in certain cases, such as the insurance of employees of IT companies, greater emphasis is placed on customer service and the quality of healthcare organizations provided under the VMI system than on the cost of insurance.

Consolidation of the insurance market

There is an increasingly marked trend on the VMI market towards the exit of small players and consolidation of the market. In our last study this was only mentioned by 8% of healthcare organizations, compared to over a third of respondents in the current survey. The consolidation of the sector is largely due to the fact that

dealing with larger insurance companies is more convenient both for employers, which in this case receive a wide range of clinics and doctors to treat their employees and better prices for VMI policies, and for healthcare organizations themselves, since large insurers are able to provide a steady flow of VMI patients and late payment problems are much less likely to arise with them than with small insurance companies.

Consequently, the more vulnerable players are dropping out of the insurance market, whether by reason of losing their licences or as a result of mergers or takeover by larger entities. According to the respondents, an increasingly large proportion of the market is concentrated in the hands of 7-10 key companies, and it is these that will determine the further development of VMI. Some respondents noted that consolidation is even more marked in the regions, where there tend to be one or two dominant players which dictate the rules of play on the market.

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Over the last two years the VMI market has been under various pressures. The number of participants in the insurance market is falling every year. If in 2010 there were around 100 insurers developing VMI, now the active VMI market consists of about 40 companies.

Representative of a network of federal city clinics

The study participants stressed that the consolidation trend in the insurance market is in turn driving the concentration of the private healthcare market, since the top insurers prefer to deal with 30-50 large healthcare institutions. Given the limited quantity of insurance customers and, accordingly, VMI patients, it is becoming more and more important for clinics to maintain partnerships with insurance companies so as to secure sufficient numbers of patient registrations. Healthcare organizations identified the main factors in those partnerships as being customer service, honesty and compliance with insurers' requirements regarding the quality and cost of medical care.

Other trends

Other trends on the VMI market noted by the respondents include the shift by insurance companies to electronic documentation in dealings with HCOs, the opening by insurance companies of their own clinics and certain patterns of behaviour among insurance patients themselves, who, as their disposal income falls, aim to make maximum use of VMI policies by making more frequent visits and seeking more services.

42% of the survey participants observed that they had seen the number of patient registrations from insurance organizations rise over the last two years, which had a positive impact on the revenue of the clinics concerned. Changes in the performance indicators of healthcare organizations are discussed in more detail in the “Development of healthcare organizations: performance indicators, projects and key problems” section.

Prospects for alternative types of insurance



In referring to alternative insurance, many respondents had in the mind the conclusion of a direct healthcare agreement between a corporate policyholder and an HCO without the involvement of an intermediary. An agreement of this kind generally operates on a deposit basis, i.e. the employer pays the healthcare organization a specified sum which is utilized as and when employees seek medical care.

The majority of those surveyed take a positive view of this type of VMI: some HCO representatives observed that they were already working under direct contracts with corporate clients, while other organizations are trying to offer this format to employers in the regions but are not yet seeing sufficient interest on their part.

At the same time, some respondents believe that the concept of the deposit-based agreement has been around for quite a long time, but large companies are reluctant to contract directly with healthcare institutions for multiple reasons, including tax differences and limited geographical coverage (for example, where the employer company has branches in several towns), while smaller businesses are opting not to insure their employees at all in order to save money.

Insurance companies likewise have little interest in the development of deposit-based insurance plans: receiving an advance payment from an employer and using it as and when insured events arose would mean that they would be forced to spend the entire deposit or return the unused amount to the policyholder, and their income would in this case be limited to a small commission for intermediary services. In this case the risk model for insurers looks preferable.

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An alternative insurance system, whereby the insurance company is paid in advance by the employer and receives a small margin, is better for patients, but what good is it to an insurance company? Under the normal VMI system the insurer receives, say, 100,000 roubles, spends 50,000 and stays in profit, whereas under the deposit system the whole amount is used up.

Representative of a federal city medical centre

Notably, almost none of those surveyed mentioned alternative types of insurance in the form of specialized Internet platforms which provide corporate clients with convenient and inexpensive B2B services involving the planning and control of employee healthcare costs. The advantages of this arrangement for the policyholder include the relatively low cost of insurance compared with insurance companies, individual risk calculations for the company's employees and regular reports on the utilization of the budget for healthcare services; the advantages for patients are the ability to book appointments online with specialists at suitable clinics, a convenient digital profile with all medical information, and access to telemedicine consultants. In view of the digitalization trends in healthcare and cost-cutting by employers, services of this kind have the potential to become a real alternative to classic insurance, but are held back by their limited audience, which mainly consists small and medium-sized businesses, while large companies, being more conservative, prefer to continue dealing with insurance companies.

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An agreement between a healthcare institution and a company on the provision of healthcare to employees – even on a fixed-price basis – is in our view a more honest and caring way to treat employees.

Representative of a network of regional clinics

Expectations regarding the further development of the VMI market



Despite the negative trends identified in the voluntary medical insurance market, the respondents concur in the view that VMI is an important part of the Russian healthcare system and helps to provide the population with good-quality healthcare. The survey revealed the following trends and expectations among healthcare organizations regarding the development of the VMI market over the next few years.

Continuation of the trends of limited growth and consolidation of the insurance market

The majority of survey participants see no grounds to expect any significant improvement of the situation on the insurance market in the next few years. In their view, while VMI exists only in the corporate environment and there is no full-fledged voluntary insurance system for individuals⁴, market growth will be restrained by weak rates of economic growth (1.6-1.8% in 2020-2021 according to the World Bank's forecast⁵). In addition, the expected further consolidation of insurance companies may also limit market expansion, particularly in view of the reduced content and decreasing cost of their programmes (for example, owing to the growing use by large players of telemedicine tools, which make VMI policies cheaper).

This means that the only obvious growth factor in the voluntary medical insurance market is inflation, which World Bank experts believe will stand at 3.7-4% in 2020-2021. At the same time, some respondents believe that the VMI sector will be boosted to some extent by the promotion of critical illness

⁴ Prices of collective insurance agreements are generally lower than the cost of VMI policies for private individuals despite the more limited number of corporate policyholders.

⁵ <http://pubdocs.worldbank.org/en/493311575429783105/rer-42-rus.pdf>

and comprehensive health screening programmes and the expansion of telemedicine services among sections of the public that did not previously use paid medical services, as well as the potential development of international insurance packages in the high price segment.

Development of new formats of relationships between insurance companies and HCOs

According to those surveyed, arrangements with insurance companies are becoming increasingly customized: patient registration procedures, rules for the conduct of medical examinations and other aspects are being individually worked out with each insurer. Healthcare organizations also believe that the risk model that is currently predominant on the VMI market is obsolete and ineffective as a tool for meeting insurance objectives. Insurance companies need to offer new products and formats and there must be greater involvement of healthcare institutions in the process of the calculation of insurance risks. Another trend that will affect the VMI market is digitalization and the provision of telemedicine services: clinics that have these capabilities in place will be an advantage in dealing with large insurance organizations.

Spread of VMI critical illness and comprehensive screening programmes

An interesting trend in 2019 according to data published by the Russian Central Bank was the growth in sales of VMI critical

illness policies and inexpensive health screening (check-up) programmes, with demand for these products coming from private individuals⁶. Given the increased attention to health problems and the early diagnosis of serious diseases, partly due to the “Healthcare” national project, the survey participants expect this trend to develop further and to spread in particular to large corporate employers in terms of comprehensive screening programmes for their employees. This may be aided by potential legislative measures aimed at encouraging employers to include regular VMI health screening in an employee’s social package.

Modernization of the medical insurance system

Some respondents said that the time had come to improve the way the insurance system is organized in Russia and cited the example of foreign countries where state (or basic) insurance policies cover a standard range of essential healthcare services, and patients who want extended cover or better service can buy additional insurance policies from insurance organizations. An important element of the system, depending on the country,

is co-payment, whereby insured persons participate in the financing of mandatory insurance together with their employer and pay extra for certain services and medicines, or the use of deductibles, whereby patients themselves must pay for a part of healthcare services received under an insurance plan. This means that insured persons can choose how they receive their healthcare with clear and transparent financing arrangements.

In the opinion of the survey participants, the best way to modernize the Russian insurance system would be to combine compulsory and voluntary medical insurance. This would involve determining for each class of disease what part of standard recommended medical care may be funded from the CMI programme and what part must be covered by VMI, and what additional services a patient may purchase for cash. Preventive care for a particular class of disease could be covered by the CMI policy. This arrangement would benefit healthcare organizations, insurance companies and patients alike. However, achieving this would require changes in the law and initiative on the part of insurers themselves.

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Within the next few years, we will probably arrive at a proper, modernized insurance system of the kind they have in various countries of the world. Insurance companies must lead that process. In the West, more attention is paid to preventive medicine, and insurance policies are more expensive for those people do not undergo regular health check-ups

Representative of a network of clinics in federal cities and the regions

⁶ <https://rg.ru/2019/12/09/rossiiane-stali-chashche-samostoiatelno-pokupat-polisy-dms.html>

Expert comments

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On the one hand, we see the VMI market demonstrating stability and even modest growth, but at the same time the growth potential of the market is constrained by weak forecasts regarding the pace of overall economic growth. As a result, companies that buy VMI for their employees do not have more available cash to spend on social packages, but are faced with rising prices, including for healthcare services, and increased payroll costs.

A number of future trends in VMI are likely in this situation. Firstly, some clients will leave the market, leaving only state companies and enterprises that have growth potential. Secondly, we will see more active use of deductibles and other tools for optimizing expenditure on VMI. Global practice shows that deductibles encourage more considered use of healthcare services among patients, and in many countries the system is widely used, but products of this kind have not yet quite caught on in Russia. In addition, we will see the appearance of health management programmes, through which large amounts of data on employee morbidity may be accumulated and analysed, enabling employers to plan and control VMI costs more efficiently. Some insurance companies are already offering employee support programmes of this kind, and we can expect to see further development in this area and greater involvement of healthcare organizations in that process. The third trend will be the combining of CMI and VMI, which, as prices rise year after year, is becoming an increasingly attractive option for employers, insurance companies and patients alike. But it is important for the state to take an active role as regulator in this area.

Alexander Grot

President of the Association of Private Clinics in Moscow and the Central Federal District

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The state is constantly looking for ways of improving the CMI system: for example, there was an initiative to introduce a “CMI plus” programme, but it never caught on. The potential to combine CMI and VMI is certainly there, but the key issue is in drawing the boundary line between VMI and CMI. There has to be a clearly defined state-funded healthcare programme, in terms of what services are included, within what limits and at what prices, in order for insurance companies to join the system. And this is the way forward for CMI, because as healthcare becomes more expensive and there is increasing use of expensive technologies, it is inevitable that we will have co-payment and combined compulsory and voluntary insurance systems, as global practice shows.

Vitaly Omelyanovsky

General Director of the “Healthcare Evaluation and Quality Control Centre” federal institution of the Ministry of Healthcare of the Russian Federation

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We are seeing consolidation processes on the Russian market, and that trend is set to continue over the next few years.

The task facing an insurance company today is not only loss adjustment, as people at healthcare institutions believe, but also organizing good-quality healthcare in accordance with the insurance programme that the policyholder bought. The insurer does not place limits on what clinics can prescribe insofar as it is necessary for the insured person's treatment, but checks to ensure that they are not prescribing superfluous services that have no bearing on the course of treatment (spin-off services) and that there are no services being prescribed by the clinic to increase its profit or services being provided that do not fall within the scope of an insured event but are billed to the insurance company rather than the insured person himself.

The VMI system needs to be modernized, but this is unlikely to happen in the medium term. VMI has always been a low-margin product for an insurance company. If employees carry on reducing average premiums per patient, insurance companies will have to minimize the services included in a VMI policy. The VMI system is currently as effective as it can be and more or less meets consumer demand and market requirements. I think that any changes would have to be initiated primarily by clients, and insurance companies are already fulfilling their needs. On the whole, we see it as possible and desirable for elements of preventive healthcare to be incorporated into the insurance system.

We do not see any scope for the development of alternative insurance schemes on the Russian market in place of classic VMI. Because corporate clients want to plan their VMI budget a year or several years ahead and want to have their insurance company's support at all stages of the use of healthcare services. This is not possible under alternative schemes, as a pay-as-you-go system does not allow for such planning. I think it would be interesting to see combined CMI and VMI in Russia, but as yet there is no defined strategy for achieving this.

At present, some insurance companies are involved in CMI. Other insurers could participate in the CMI system in terms of assisting with the distribution of high-technology care quotas or the provision of information support for complex illnesses.

Olga Suvorova

Deputy General Director
of RESO-Garantia PJSC

Expert comments

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In terms of modern approaches, we need to move towards a more controllable insurance system. For example, when insurance companies began shifting risks onto clinics, negotiating with them about average bills and cutting their expenditure on monitoring insured events, a situation arose in which it was harder for them to control their losses. Because if large clinics start breaking price agreements, this hits the insurer's profits and ultimately reduces the product margin, leading to lower-quality service and higher-priced contracts.

Today, insurance companies need to offer consumers a more digitalized experience and position themselves as the service operator, helping patients to manage their own insurance plan. This in turn gives the insurer more control over the patient's decision-making regarding the use of healthcare services. An example might be for an insurance company to organize its own telemedicine service to help reduce the cost of initial appointments and ensure efficient patient routing.

It would be advisable to incorporate a co-payment mechanism in the insurance system, as something that is used in one way or another in many European countries and the USA. This gives patients better control over their healthcare costs. However, the introduction of co-payment would require an IT platform: after a patient visits a clinic a certain percentage of the cost of healthcare services provided is charged to his bank card. Another approach is for a patient to pay a fixed amount for a visit to the clinic.

The modernization of the insurance system will to a large extent depend on insurance companies' readiness for these changes and the availability of appropriate IT platforms or on regulation at legislative level. The insurance sector in Russia is

not regulated in a way that inhibits the creation of new products. Our country is a leader in fintech and can become a leader in insurtech: everything hinges on the development of new technology-based insurance products. Changes in the insurance system should be driven primarily by larger insurers or new companies in the field, while the state would act as an administrator of the effective combining of the VMI and CMI systems.

The main beneficiaries of changes in the insurance system would be employers who insure their employees, and it would also indirectly improve the quality of healthcare services provided to VMI patients. There is currently a lot of competition on the VMI market: as insurance companies begin to see substantial declines in some types of insurance (e.g. motor insurance as a result of car-sharing), they are focusing their strategy on healthcare. The high level of competition encourages the creation of new products, which is a good thing for the consumer.

I think that preventive medicine will continue to evolve and will have to be integrated into the insurance system. We are seeing changes in consumption trends in healthcare, and the promotion of healthy living among certain categories of people is driving demand for relevant healthcare services. In other words, patients are going to clinics not because they are ill, but to find out in advance how healthy they are. In the past, it was harder for preventive medicine to be integrated into the system because people tended to go to the doctor when their symptoms were severe and they were afraid for their health. Now, the abundance of marketing and information makes people wary of potential illnesses, which is why there is increasing demand for check-ups and other healthcare services of a preventive nature.



On the one hand, the state could act as the driver of preventive medicine: in Moscow, for example, there are a lot of good initiatives aimed at promoting a healthy lifestyle and regular health checks. On the other hand, insurance companies need to be involved in this process. Currently, many insurance programmes provide for medical care to be provided only when acute health problems arise or in the event of a flare-up of a chronic condition. In other countries, insured persons can obtain preventive examinations free of charge, but pay part of the cost of outpatient services when receiving treatments. Thus, we need to devise new insurance products that include elements of preventive healthcare. Also, one of the barriers to the mass development of this field at the moment is the fear on the part of patients that private clinics will have them undergo a dozen or so medical tests that are not necessary. And this is where the insurance company can step in as the guarantor of trust for patients.

Mark Sanevich

General Director and co-founder
of BestDoctor

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At present, seven insurance companies control 90% of the VMI market. VMI is not as developed as other types of insurance, including in terms of automation. While there are specific rules of play in CMI and medicine, in VMI they differ from one case to the next. None of the parties involved in VMI are happy with the situation as it stands.

Igor Zharkikh

Head of the Subcommittee for
the Development of the Voluntary
Medical Insurance Market of the
“Delovaya Rossiya” All-Russian
Social Organization

Competition on the healthcare services market: trends and forecasts



According to the study participants, competition on the healthcare services market is largely shaped by external factors (the income level and consumer preferences of patients, the level of development of state healthcare in a given region, the situation on the voluntary medical insurance market) and by the respective business characteristics of competing healthcare organizations.

In Moscow and St Petersburg there are a large number of private players on the outpatient market, resulting in a high level of competition. The respondents observed

that the individual business models of different healthcare organizations (in terms of format, geography and quantity of outlets, price segment, provision of VMI and CMI services, marketing activity, etc.) assured every clinic of its share of patients. At the same time, participants in the private healthcare market are conscious of increasing competition from state healthcare institutions as a result of technology upgrades, improved service and increased salaries for doctors working there.

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As far as private clinics in the outpatient segment are concerned, there are enough patients for all of them. Those with low prices operate in the VMI segment. Those with high prices focus on individuals. There is an advantage to having a larger clinic or more branches. Every clinic has its clientele. The important thing is to recruit the right doctors. Then you will be able to withstand any competition.

Representative of a federal city medical centre

In the regions, because there are fewer private clinics the level of competition is much lower than in the federal cities, but healthcare organizations initially compete for patients with state institutions, where the majority of people prefer to go for free medical care. Nevertheless, survey participants from the regions point to a growing migration of patients to private HCOs owing to the high standard of service and medical services that are not available at municipal healthcare institutions. As for competitors, representatives of regional healthcare companies observed that there are no major differences between commercial clinics, and if one raises prices or introduces new services, the others follow suit.



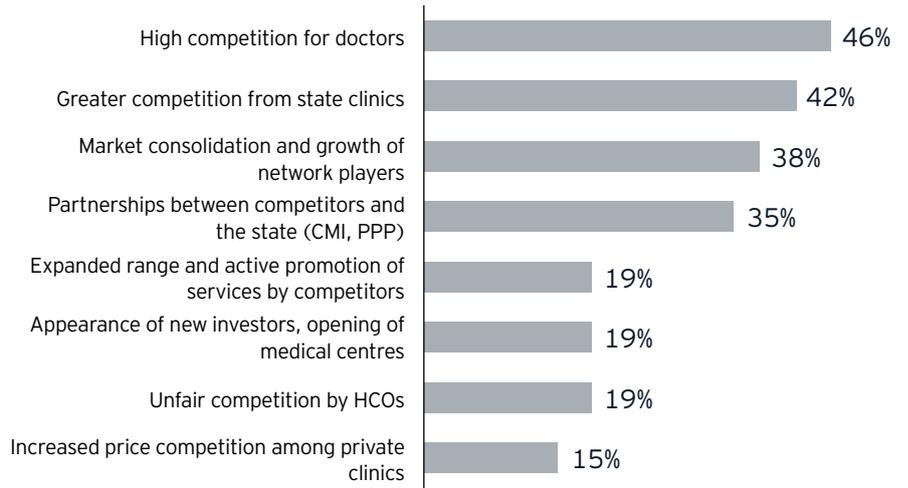
In the regions, private healthcare companies all evolve in the same direction. If one of them starts promoting something or bringing in new practices, all the others eventually start copying it.

Representative of a network of regional clinics

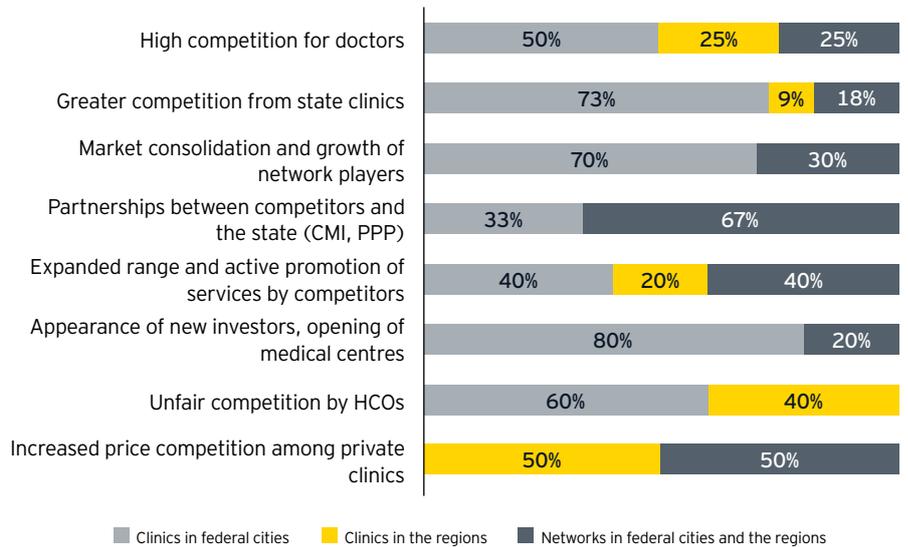
Interestingly, the respondents expressed different opinions about the availability of information on the activities of their competitors. Some said that information about notable events and new developments in the activities of healthcare companies is quick to appear on the market. Furthermore, modern patients have high expectations about the accessibility of information on healthcare services, prices and diagnostic and treatment capabilities at clinics, which also has the effect of making HCOs more transparent for their competitors. Others take the view that it is difficult to keep track of what competitors are doing because information on their internal changes is kept fairly secret and there is virtually no interaction or joint discussion of industry trends and problems between market players.

In all, 19% of the study participants stated that they had not observed any particular changes in the activities of their competitors in 2018-2019. The responses of the remaining participants indicate the following principal trends.

Competition on the healthcare market: trends in 2018-2019



Competition on the healthcare market in 2018-2019: geographical distribution



High competition for doctors

According to the results of the survey, 46% of healthcare organizations indicated high competition for doctors as a key trend, whereas this aspect was not separately identified by respondents in our last study. Among the general reasons given for the shortage of medical personnel were the demographic crisis and steady drop in the birth rate since the 1960s and the deficiencies of modern medical education, which makes the battle to attract talented “old school” doctors more acute.

Around 60% of those who indicated this trend noted that private HCOs in the federal cities were increasingly competing with state healthcare institutions for doctors. As a result of the pay rise awarded to state sector medical workers under the President’s “May edicts” of 2012, it has become more difficult and more expensive for commercial clinics to recruit and retain good doctors. The survey participants find themselves in a difficult situation: raising salaries without increasing revenue would reduce business profits, while trying to grow revenue through price changes would have a negative impact on patient numbers. The only solution for private HCOs is to increase the efficiency of their main asset, i.e. medical personnel, but not all specialists are prepared to meet the high requirements and some doctors prefer to go over to state institutions, especially as there are various benefits available to state sector workers. According to the health industry journal *Vademecum*, doctors working at municipal institutions have another advantage: if a clinic or hospital provides paid services, employees can expect to receive a percentage of revenue from those services on top of their main salary⁷.

Representatives of federal city clinics operating in the high price segment mentioned inflated salary expectations on the part of both doctors and other medical personnel. Whereas the recruitment of highly qualified doctors, especially if they come with their own customer base, helps a company to generate revenue, mid-level and junior medical staff mainly represent a cost, and paying them above the market level is uneconomical. Among the factors cited as fuelling the high salary expectations of doctors was the fact that some of them have grown used to “grey” salary schemes (whereby official salary is supplemented by cash-in-hand payments), whereas it is very difficult for a company operating on a legal basis to offer the same salary level owing to the fact that this leads to higher taxes and is very detrimental to the financial position of a private clinic.

This issue is most challenging for healthcare organizations in the mass market segment and those reliant on high numbers of VMI patients, since the relatively low tariffs in both cases limit the finances available to the clinics to raise the salaries of their medical personnel. This puts them at a high risk of losing staff to state or more profitable private clinics.

“ In light of the May edicts and the general situation it is practically impossible to find a general practitioner on a salary of 100,000 roubles, given that state clinics pay them 120,000 roubles. As we understand it, we can only allocate 20% of the total money supply to productive personnel. We have big tax expenses and all payments are above board.

Representative of a federal city clinic

The problem of competition for doctors is no less acute for regional clinics. There tends to be a shortage of skilled medical workers in the regions, partly because promising doctors often go to Moscow and St Petersburg in search of better financial terms and professional growth prospects. Furthermore, demand for commercial healthcare is limited, and having highly qualified specialists is an important factor in enabling a clinic to attract patients. Representatives of regional HCOs observed that as the public’s interest in paid healthcare services has risen, they have witnessed aggressive behaviour on the part of their competitors, who poach doctors with inflated salary offers. Some respondents also note that in the regions where they operate there is “high competition for good-quality healthcare management personnel”.

“ There are not many genuinely qualified doctors who are also able to provide the necessary level of customer service. To entice the best doctors to work for them, market players are forced to offer higher levels of compensation, which affects charges for the end consumer.

Representative of a network of regional clinics

⁷ https://vademec.ru/article/zachem_gosudarstvennye_bolnitsy_vzylis_okazyvat_platnye_uslugi/



Notably, survey participants from the regions did not mention competition for medical personnel with state healthcare institutions. Industry experts claim that in some regions, the lack of sufficient funds to raise salaries for doctors and other medical personnel sometimes leads to the use of various manoeuvres, such as placing employees on part-time arrangements or dismissing specialists and reallocating their salaries, which in turn creates additional opportunities for the recruitment of medical staff from municipal healthcare institutions to commercial HCOs.

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As far as high-technology care is concerned, the issue of competition with state clinics has become rather difficult. When they provide paid services, they do not charge market prices. We cannot afford to do what they do.

Representative of a federal city medical centre

Greater competition from state clinics

Another marked change compared with our last study was the increased number of respondents who pointed to greater competition from state healthcare institutions. 42% of clinics identified such institutions as their competitors, compared with only 15% in the 2016-2017 survey. 90% of the responses in the study related to competition in the federal cities.

State healthcare has historically tended to prevail over the private sector in the area of inpatient care owing to the larger number of beds, the reputation of doctors and the cost factor. Nevertheless, commercial medical centres have attracted a steady stream of wealthy patients, particularly under well-known doctors, for certain kinds of high-technology treatment (cardiology and heart surgery, gynaecology, urology, trauma and orthopaedic surgery, neurology, reproductive medicine, cancer care, et al.). The respondents in the current survey observed that, owing to economizing by consumers and the implementation of the “Healthcare” national project, an increasing amount of demand for high-cost inpatient services, including those provided on a paid basis, was shifting to the state sector, and efficient utilization of inpatient facilities was becoming an issue for private HCOs.

For many years, private clinics had a competitive advantage in the outpatient sector, offering a high standard of customer service, a broad range of healthcare services, immediate access to specialist doctors and high-technology diagnostics and treatments. In addition, the large number of HCOs in different categories allowed demand from patients in all income brackets to be met. Over the last few years, however, state healthcare institutions have become competitive by upgrading their equipment and improving the service element (appointment-making systems, electronic transmission of test results) under state healthcare modernization programmes as well as by entering the paid services market. As a result, the survey participants have begun to see less well-off patients migrate to municipal clinics.

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In Moscow state healthcare institutions are now the biggest competitor. All the private clinics that we used to regard as competitors are now in the same boat as us.

Representative of a network of clinics in the federal cities and the regions

The survey participants believe that the legalization of paid services at state healthcare institutions creates an uneven playing field: by receiving state money to fund things such as high-technology equipment and pay rises for doctors, they are able to set tariffs for healthcare services at below cost, enabling them to attract not only CMI patients but also those who previously used commercial clinics.



Market consolidation and growth of network players

38% of the respondents identified market consolidation and the growth of network players as another trend on the private healthcare market that has been developing over the last few years (compared with 30% in the last study). Some observed that this is a natural phenomenon which is indicative of the maturity of the healthcare sector.

One factor driving consolidation is the closure of small federal city clinics and the redistribution of their share to market leaders. As consumer spending power declines, people who were previously able to afford cheap paid medical services at such organizations are increasingly trying to save money and either go to state institutions for free medical care or opt for self-medication. It is practically impossible for small HCOs to refocus their business model onto other categories of patients: they do not have the expertise to provide high-technology care and cannot make enough money from CMI outpatient work owing to the low tariffs, while insurance companies prefer to work with large market players as far as VMI care is concerned. If small clinics can find an interested investor, they can exit the business relatively loss-free.

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Consolidation is the right way to go. It is easier for one large brand to operate than 10 small ones. Because once a large player has worked out how to move forward, it uses the same tools, adjusted to scale, on the small medical centres that it acquires. It is the small medical centres that lay the groundwork. This is why small clinics are happy to be sold to larger ones, which buy a ready-made product: equipped premises, workforce and everything else.

Representative of a network of federal city clinics

Another factor is that, for particular business reasons, large network players in the federal cities open new clinics operating under various formats or do deals to acquire other healthcare organizations, whether in their current area of operation or in other regions. The respondents observed that the level of competition in the regional healthcare sector was lower than in the federal cities, and the entry into that market of a large brand from Moscow or St Petersburg may attract patients owing to its association with high standards of service and medical care. However, the challenge for healthcare companies seeking to develop their presence in the regions is to work out in each individual case an approach that will be economically effective in the context of a particular local market.

At the same time, representatives of regional HCOs said that they saw little chance of the consolidation happening in the federal cities being replicated in the regions: “Our market is limited in terms of both patients and medical staff, and we have a smaller flow of healthcare tourists than in the central regions, so there is no chance of any consolidation”.

Partnership between competitors and the state (CMI/PPP)

35% of survey participants noted active participation in the CMI system or joint projects with the state among the notable activities of their competitors. Changing circumstances on the market have forced HCOs to look for new ways of utilizing capacity and diversify income sources, and one solution is to provide healthcare services under the state-funded healthcare programme.

According to those surveyed, the access of private clinics to the high-technology care system under CMI means that large market players can be paid by the state to provide instrumental diagnostics (MRI, CT), cardiovascular surgery, cancer care (chemotherapy, radiation diagnostics and therapy) and other profitably priced high-technology services. Some private HCOs with the relevant areas of expertise also perform state orders in the area of assisted reproductive technology (IVF).

On the one hand, market players view partnership with the state as an effective way of increasing patient flows and improving their finances, but on the other hand they feel that it may expose them to additional inspections and reporting requirements as well as a potential risk of the accumulation of debt owed by territorial CMI funds for medical services provided.

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Everyone is heading for CMI. But for those who have never done it before, it is an extra burden, what with inspections, documentation requirements and having to keep separate accounts of revenue from commercial and CMI patients. And the more clinics provide CMI services, the higher the risk that they will do something wrong and have problems with their licence.

Representative of a federal city medical centre

Some respondents also noted the involvement of competitors in public-private partnership projects, but expressed doubts as to the economic effectiveness of such partnerships. Issues relating to the involvement of healthcare organizations in the CMI system and PPPs are discussed in more detail in the “Partnership with the state” section.

Expanded range and active promotion of services by competitors

In our last study, the expansion of the range of services offered by competitors was identified as a key trend on the commercial healthcare market: one half of the participants in that survey pointed to the opening of full-time and day patient hospitals and paediatric divisions, the expansion of laboratory and instrumental diagnostics and the development of new products and offerings. This time, only a few respondents observed that their competitors were moving into new areas, singling out telemedicine projects. This may be because most major players on the market already provide the maximum range of healthcare services or because the surveyed HCOs have begun devoting less effort to monitoring what their competitors are doing in this regard.

Over the last two years it has become more of a priority for healthcare organizations to promote their own brand and existing business lines and services. Some study participants highlighted the active use of advertising by their

competitors, but doubted that such expenditure was worthwhile. It was also observed that marketing instruments of this kind were more essential for clinics focused on private clients than for those who mostly treated insurance patients.

Appearance of new investors and opening of medical centres

19% respondents reported that the opening of large healthcare clinics by new investors continued to take place in Moscow and St Petersburg. However, this trend appears to be in decline: the appearance of new competitors was noted by 41% of HCOs in the 2016-2017 survey. Those surveyed expressed scepticism about whether new large-scale capital investments in healthcare could be successful or bring returns, noting that “the market is over-saturated and there is already three times more supply than demand”. New players will have to meet the challenges of securing a sufficient flow of patients for their clinics and recruiting qualified staff, while existing operators have the advantage of an established reputation and an accumulated customer base.

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People are continuing to open medical centres. It's hard to understand what attracts investors, because the margins in healthcare start at around 4-5%. Perhaps it is just big businessmen investing in long-term projects.

Representative of a network of federal city clinics

Unfair competition by HCOs

Around 20% of survey participants said that improper conduct on the part of their competitors in the healthcare market made it difficult for private clinics to do business. As before, one of the most common problems is the use by some healthcare companies of “grey” schemes for paying their staff, which enables them to lower their tax base. This puts such players at an advantage over honest HCOs in terms of the ability to channel financial resources into development (upgrading equipment, improving customer service, promoting services, etc.) or set lower prices for healthcare services.

Another type of unfair competition identified by the surveyed companies is the aggressive selling of supplementary healthcare services, which is sometimes due to incentives offered to doctors to sell them. Such clinics are often unconcerned about retaining clients, and their behaviour provokes negative attitudes towards private healthcare as a whole.

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Some private clinics fleece patients in pursuit of profits, and this affects the reputation of all players on the market.

Representative of a federal city medical centre

Some respondents also observed that some HCOs take cash-in-hand payments from patients for medical services provided, which is detrimental to the development of the commercial healthcare market as a whole.

Increased price competition among private clinics

Despite the decline in effective demand, only 15% of healthcare organizations said that there was more intense price competition among private clinics in 2018-2019 (compared with 44% in the last survey). Respondents observed that clinics in a particular price segment make wide use of promotions, discounts on consultations and other price reduction tools, which helps them to attract first-time patients. At the same time, they pointed out that this approach not only lowers a healthcare firm's margins, but also damages its reputation, and a more effective solution is to design tailored, good-value offers for loyal clients (e.g. when selling packaged services). Other HCO representatives commented that not everyone could afford to compete on price with undercutters, and they had seen some patients leave in favour of private clinics with lower average bills.

On the whole, many study participants agreed that the healthcare services market is becoming more competitive and there is increasing competition between paid and free healthcare, which brings about significant changes in patient flows. Some of those surveyed expressed the view that, as a way of intensifying competition, there had been a deliberate policy in recent times of highlighting mistakes made by doctors at private medical centres, but this did not help the reputation of either commercial or state clinics. Some respondents observed in turn that what prevented market players from developing was not competition, but rather lack of cooperation, including in the area of patient routing.

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If a patient needs an operator, it is easier for doctors at a polyclinic to say ‘Get it done wherever you like’ than to refer him to a specific clinic. But from the patient's point of view, it would be an indication that the doctor actually cared about his treatment, and he would be more likely to return to that polyclinic.

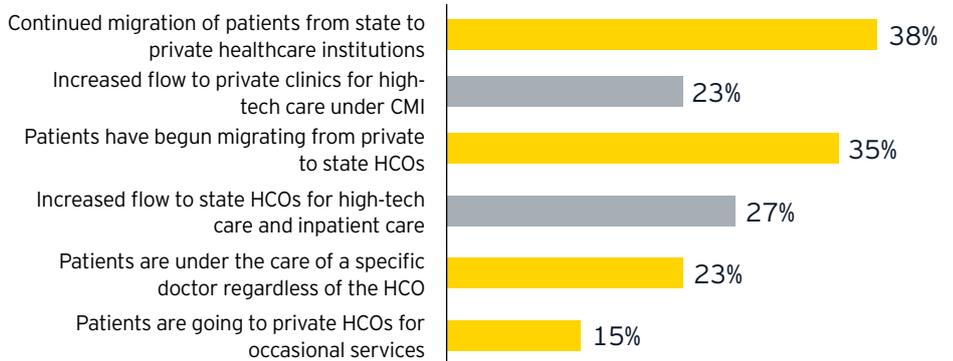
Representative of a federal city medical centre

Distribution of patient flows between paid and free healthcare

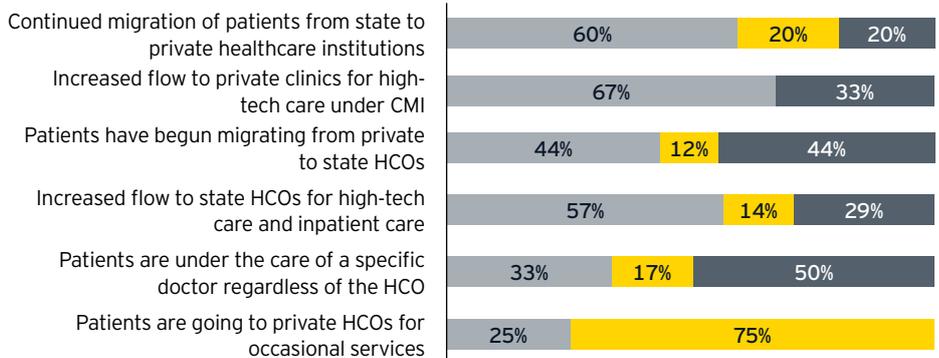


The opinion expressed by surveyed healthcare organizations about the movement of patients between the public and private healthcare sectors has changed in the last two years. In the last study, the majority of respondents referred to significant migration of CMI patients from state healthcare institutions to private clinics owing to the reduced accessibility of medical care, viewing this as a key factor in the growth of the private healthcare market. In the current survey HCO representatives noted differing trends shaped by the decrease in effective demand, consumer preferences, steps taken by the state to develop the healthcare system and other factors. Furthermore, the extent to which patients use particular channels for obtaining medical care depends on the level of awareness about the capabilities of paid and free healthcare.

Patient flows to private and state HCOs: trends in 2018-2019



Patient flows to private and state HCOs in 2018-2019: geographical distribution



■ Clinics in federal cities ■ Clinics in the regions ■ Networks in federal cities and the regions



Migration of patients from state to private healthcare institutions (inpatient care, high-technology care under CMI)

According to 38% of the study participants (mostly representing federal city clinics), the last two years have seen a continuation of the migration of patients to private HCOs in the outpatient segment. As before, the respondents attribute this trend to the limited accessibility of appointments with specialists at municipal polyclinics and the high standards of customer service and medical care at private HCOs. The services identified as most in demand were diagnostic tests, including instrumental tests (MRI, PET, CT), consultations with paediatricians and specialized doctors, minimally invasive interventions performed on a day-patient basis, dentistry and plastic surgery. Some survey participants noted demand for the "second opinion" service, where patients who have been to see a doctor at a state healthcare institution ask a specialist at a private clinic to review the diagnosis. Some HCO representatives expressed the view that inpatient care was likewise gradually shifting to the private sector.

All told, the respondents estimate that 10-15% of the population of the federal cities regularly use private clinics, and another 70% of patients use commercial healthcare services to some extent.

Patient migration is also driven by the growing amount of involvement of commercial clinics in CMI in the area of high-tech care: holders of CMI policies can choose which healthcare institution to go to for high-technology medical care and many of them prefer a private HCO. Those surveyed believe that the deciding factors for the patient in this case are the immediate availability of medical care, the clear and transparent conditions for its provision, the expectation of high-quality treatment (in terms of both the expertise of doctors and the availability of modern equipment) and, in some cases, previous experience of using a specific clinic. In 2018-2019 the main services provided to CMI patients in the area of high-technology care were gynaecological, neurological and cardiovascular operations and cancer treatment. The respondents also observed that they could provide more high-technology care under CMI in line with patient needs, but clinics were restricted by government-imposed quotas.

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If a patient comes to us under CMI, we have to provide him with full treatment within the tariff for high-technology medical care. From this point of view there is transparency in receiving treatment: the patient knows what to expect.

Representative of a network of clinics in the federal cities and regions

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The range of services provided under the CMI system is narrowing every year. Everything is moving over to VMI and services for cash. The state is cutting consultation times with specialists as well as the services they can offer. This leaves people with no option to but to go to private clinics.

Representative of a medical centre in a federal city

Migration of patients from private to state healthcare institutions (outpatient and inpatient care)

35% of those surveyed observed that the decline in household income over the last two years has resulted in an increase in the number of patients who prefer to go to a polyclinic under the CMI system if they are satisfied with the quality and accessibility of medical care. Representatives of HCOs in federal cities emphasised that patients were previously driven towards private healthcare by the unavailability of certain medical services in the state sector. However, the modernization of state clinics and the development of the CMI fund have made it possible for residents of federal cities to obtain virtually any services

through a territorial CMI programme, while improvements in pay and incentives for doctors have enabled municipal healthcare institutions to compete successfully with private clinics for qualified staff. In addition, the conduct of measures such as the “Healthy Moscow” programme, in which free health checks are provided in parks, is an effective way of promoting state healthcare services to the public.

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I agree that patients are being lost to state clinics. The state, especially in Moscow, is investing money in healthcare – improving clinics and raising doctors’ salaries – and patients are naturally beginning to go there for treatment, especially as it is free.

Representative of a network
of federal city clinics

In the regions, the modernization of healthcare institutions is lagging behind large towns, while most of the population has no option but to use free healthcare. People with higher incomes go to commercial clinics in order to get an immediate appointment with a relevant specialist or to access laboratory and diagnostic services, but this has not yet become a widespread trend. At the same time, a representative of one network of regional clinics commented that if a niche state offering is created in a region through investment in new equipment and customer service, it is difficult for a private clinic to compete in that situation.

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We are surprised to see a state children’s polyclinic competing with us. They found investors, updated the clinic and had quite a few patients coming in straight away, because the treatment is free and the service is not bad.

Representative of a network of regional clinics

Almost a quarter of the survey participants expressed the opinion that patients in need of high-cost operations tend to choose state healthcare. Furthermore, thanks to substantial financing in the big cities, state clinics are able to provide good high-technology care and bid for high-technology care quotas alongside private HCOs, not only in the area of complex operations requiring hospitalization and a prolonged inpatient stay, but also with regard to outpatient surgery.

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Patients are certainly being lost to the state sector in the area of operations and high-technology care. Regarding the procedures we do at our one-day hospital in the area of gynaecology and phlebology, the insurance companies tell us ‘We’ll only send patients to you if they specifically request your clinic, if they know the doctor and see him on an outpatient basis. But all other things being equal, we have departmental clinics queuing up’.

Representative of a federal city clinic

The respondents observed that the high level of competition is good for patients as they do not have to queue long for an operation and have a greater choice of places to go to for high-quality medical care under a CMI policy. At the same time, some survey participants said that patients who had gone to a private clinic for treatment but had then for whatever reason been referred by their doctor to a state institution (e.g. to do an operation there) quite often encountered a lower standard of service and less considerate treatment, which may prompt them to opt for commercial healthcare in the future.

Patients are under the care of a specific doctor regardless of the clinic

23% of participants in the study thought that a patient’s choice of healthcare institution may be significantly influenced by attachment to a specific qualified doctor whom the patient trusts to deal with his or her problems, including in terms of routing, and whom the patient is willing to follow to any clinic regardless of the cost of consultation or treatment. Private HCOs who have managed to recruit such specialists have a competitive advantage over state healthcare institutions. However, the survey participants observed that if a doctor splits his time between different institutions, he may “draw a patient over to a state clinic”. On the other hand, if a municipal institution does not have a particular kind of medical equipment, the doctor may route the patient to a private HCO.

Another manifestation of this trend is the determination on the part of some patients to get to see well-known specialists in certain classes of disease, even it means travelling to another city. In this case patients will be more willing to pay for medical care, whether the consultation takes place at a private clinic or a state healthcare institution.

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Particular mention should be made of highly qualified medics who do consultations at state institutions. Patients go specifically to see them and are prepared to follow them to any healthcare organization.

Representative of a regional clinic network

Patients go to private HCOs for occasional services

15% of respondents, mostly in the regions, pointed to the trend of patients going to private HCOs on an occasional basis. This is often due to the fact that some services are not available at a state healthcare institution and patients are therefore sent to a private clinic, or because they need an urgent consultation with a specialist doctor and cannot wait a long time for an appointment at a municipal polyclinic.

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Over the last few years, we have seen a rise in the number of patients who are under the care of state clinics but come to us for occasional services, for example when they need an expert opinion from a highly qualified doctor. There are some lab and instrumental tests that patients can only get done in the private sector, and there are ultrasound specialists to whom people are sent specifically for cancer screening.

Representative of a regional clinic network

According to one study participant, in the federal cities this trend stems from the service element: after consulting with a general practitioner or other specialist at a state institution, patients go to a private clinic for standalone diagnostic services (CT and MRI scans, general tests, mammography, colonoscopy, ultrasound, EGD) so that they get the test results more quickly.

Another HCO representative observed that the practice of making occasional use of private healthcare was most noticeable in the medical test segment. Although many tests are available at municipal polyclinics, it is easier for the patient to go to a commercial lab near to his home if time is more important to him than money.

Expectations regarding the future development of competition on the healthcare market

The majority of participants in the study expect the healthcare services market to see even more intense competition for patients in view of limited consumer spending power, state initiatives to improve the efficiency of medical care, including through the “Healthcare” national project, and steps taken by major players to strengthen their positions. Taken as a whole, the predictions of the surveyed HCOs suggest a number of key trends over the next few years.

Gradual growth of competition from state healthcare institutions in the federal cities

Owing to the state's efforts to modernize the healthcare system, primarily in large cities, the next few years are likely to see more intense competition between private and state healthcare institutions. The Moscow Government has set itself the task of improving the quality and accessibility of free healthcare services, to which end it plans to build modern polyclinics in residential areas, implement the “Day surgery” project, open university clinics at leading medical education establishments, develop the information infrastructure for the city's healthcare system and carry out various measures aimed at preventing diseases and promoting healthy living.

In St Petersburg there is likewise a government drive to develop primary medical care, including in terms of the customer service element, with particular focus on preventive vaccination, the improvement of children's polyclinics and the protection of reproductive health.



Representatives of private clinics in the federal cities believe that state clinics really will be able to compete more seriously with private HCOs if the state's plans to develop the outpatient sector are underpinned by strong financing

arrangements, and municipal healthcare institutions will be able to switch to a patient-focused model, which at the moment is the competitive advantage of commercial healthcare.

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If patients find no problem getting a prompt appointment for a specialist consultation or complex diagnostic services, the level of trust in state sector doctors will increase, and their work will be shaped around the principles of evidence-based medicine, as already happens in private clinics. In this case, we are likely to see some patients moving back to state healthcare institutions.

Representative of a network of federal city clinics



Continued market consolidation and strengthening of the positions of large network HCOs

The majority of respondents concur in the view that the gradual consolidation of the healthcare industry is now inevitable. The growth of the private healthcare market is constrained by effective demand, new players are appearing at a slower rate and it will become more and more difficult for smaller clinics to compete with large networks and, in the longer term, with state healthcare institutions. According to the participants in the study, the first to suffer from the loss of patients to municipal polyclinics will be the small private HCOs which offer a limited range of medium-quality healthcare services aimed at first-time customers.

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It stands to reason that small clinics will not be able to withstand the competition. The future belongs to the big networks.

Representative of a federal city clinic

Thus, the key conditions identified by the respondents as being needed for state polyclinics to offer serious competition to private medical centres are the improvement of customer service, including effective communication with the patient, the upgrading of equipment and the acquisition of qualified medical staff. At the same time, some HCOs think that it will take time to make these changes and the state will then have to develop an efficient system of healthcare administration.

Other survey participants took the view that the patients that will eventually be lost to state healthcare institutions will be from among people who are currently economically active, use private healthcare services and own modern information technology. In a few years' time those patients will be approaching pension age and, having limited budgets, will try to obtain primary medical care through CMI policies (GP consultations and

check-ups), especially as, by that time, municipal polyclinics will have started to offer a higher standard of service (online appointment booking, personal accounts, etc.). And if they are not satisfied with the quality of healthcare services, “they will opt for a private clinic”. Meanwhile, commercial clinics will accumulate clients from among the younger generation and patients coming from the state sector in search of a unique and personalized customer experience.

Representatives of regional HCOs expect to see a growing number of patients coming to them from municipal polyclinics in the next few years owing to the fact that, in most cases, regional state healthcare is not yet able to offer them the same standards of service and medical care as private clinics.

In addition, the surveyed market players believe that large healthcare companies will continue to open new clinics or take business from weaker competitors as part of an extensive growth strategy. At the same time, some respondents regard this as a natural phase in the development of the industry, while others say that, in view of the limited market capacity, it may in the long term lead companies that behave aggressively into economic difficulty and pave the way for the arrival of new investors, including from abroad, who will consolidate the market.

Some HCO representatives also observed that some companies may leave the commercial healthcare market as a result of increased state scrutiny of the activities of healthcare institutions operating “grey” financial schemes.

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If you take away grey schemes, you will have real competition with a level playing field in terms of salaries and taxes. When everyone starts operating cleanly, the market will shrink by about 50% as all the unviable organizations disappear.

Representative of a federal city medical centre

Regional expansion of healthcare networks

One of the notable trends on the commercial healthcare market identified by the study participants is the increased interest of large network HCOs in regional development. Competition in Moscow and St Petersburg is growing ever tighter and the healthcare services market is oversaturated, while in the regions the field of competition is relatively free and most of the population has no access to good-quality medical care, including prompt access to doctors, check-ups and high-technology diagnostics and treatment. At the same time, the level of effective demand in the regions is much lower than in the federal cities and people there are accustomed to using healthcare services under CMI policies, making it more difficult to attract patients for paid medical services. Furthermore, the regions have a severe shortage of medical staff.

The respondents expect that, depending on income and the existing standard of healthcare in specific regions, large companies will employ a variety of approaches to expanding their business, including the acquisition of local players, the opening of franchise clinics or various forms of partnership with the state (participation in CMI and public-private partnership).

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Despite the high level of competition, the leading players in commercial healthcare are only set to expand further, including in the regions. At the moment, people living in the regions opt for clinics that provide care under the CMI system, but they need paid healthcare too. So, the main challenge for commercial healthcare organizations working in the regions is to find their niche and operate in the right price segment.

Representative of a federal city clinic network

Increased presence of large medical centres in the CMI system

According to the survey respondents, in the next few years large market players will continue to develop partnerships with the state in the area of the provision of high-technology care as they aim to increase the extent and scope of their involvement in CMI. This process will be aided in particular by changes in the system of payment for high-technology care and access of private HCOs to financing for such care via the Federal Compulsory Medical Insurance Fund, as well as increases in tariffs and the numbers of patients treated under the programme. At the same time, the survey participants observed that the development of private clinics within the CMI system might be restrained by the state through quota restrictions and by growing competition for the provision of high-technology care, including from state clinics.

Pooling of efforts of large players to help resolve issues at state level

Some HCO representatives believe that it is important for the future development of the industry for market players to pool efforts to develop a dialogue with the state over key issues concerning the regulation and effective participation of private companies in the healthcare system. In their view, the state should use all possible resources to address the current shortage of public healthcare, working with commercial organizations under existing formats or developing new cooperation frameworks aimed at achieving the common objective of providing good-quality medical services to patients.

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Consolidation is a sign of the industry's maturity. The time has come for us to sit down with our competitors, discuss our problems and work out a joint position with which to approach the state as the regulator so as to reach agreement on important things that will help us develop the industry and provide high-quality medical care to the public.

Representative of a clinic network

Expert comments

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When it comes to the big cities, the main competition for private clinics today is from state healthcare, as there are significant investments being made in upgrading facilities, improving customer service and recruiting doctors to state healthcare institutions. In the long term, this will have a positive impact on the standard of all healthcare and enhance the prestige of the medical profession. We will also see prices grow in the industry, because Russian healthcare is underpriced compared with Western countries. And although what the state is doing is causing difficulties for private organizations in the immediate term, the general trend will be positive: the private sector will follow the state's example in raising doctors' salaries, and all this together will help the market grow.

The strategy chosen by healthcare organizations themselves, i.e. whether they want to focus on handling commercial patients, attracting VMI patients or accumulating CMI patients, will determine their competitive environment and marketing priorities. In the regions much will depend on local factors, i.e. the level of activity of private business in a specific region will be largely determined by the scope for participation in the CMI system or how effectively state healthcare is organized there: if state healthcare

institutions provide good-quality services, it will be harder for private clinics to attract patients. The situation varies greatly from one part of the country to another.

A major risk over the next two or three years will come from tougher competition with state healthcare organizations in the context of the significant investments being made under the “Healthcare” national project. On the one hand, state clinics have the right to provide paid medical services and compete with private operators for commercial patients; on the other, they receive state support. This puts private healthcare margins at stake.

Alexander Grot

President of the Association
of Private Clinics of Moscow and
the Central Federal District

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We see a lot of clinics being opened, primarily network clinics, in excess of existing demand for paid medical services, and we see consolidation of the market. All told, commercial healthcare is in a rather sorry state: patient flows are falling for the second year in a row. For one thing, patients try to get free healthcare by going to state clinics; for another, they are starting to go to clinics less in the first place, visiting the chemist rather than the doctor.

Although clinics are now working on their customer service element, we see no threat from them. If clinics are trying to improve service, that is a good thing, but our focus is on the first-time patient. We are now taking market share away from other patient acquisition channels. It is true that growth is not at the same level as before, but it is still outpacing the growth of the commercial healthcare market.

Dmitry Petrukhin

General Director and founder of the DocDoc online doctor search platform

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We are seeing the consolidation of players on the private healthcare market. I would single out three notable trends:

1. Private clinics are actively looking for new niches and growth areas.
2. Non-medical investors are moving into the healthcare market.
3. There is growing competition in the healthcare industry as a whole and clinical pathology in particular.

Igor Zharkikh

Head of the Subcommittee for the Development of the Voluntary Medical Insurance Market of the “Delovaya Rossiya” All-Russian Social Organization

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The trends seen in the commercial healthcare market are expansion and the opening of new clinics: there are large medical centres appearing in the big cities, such as Moscow and St Petersburg, and small clinics in the regions. This trend is likely to continue over the next few years.

Olga Suvorova

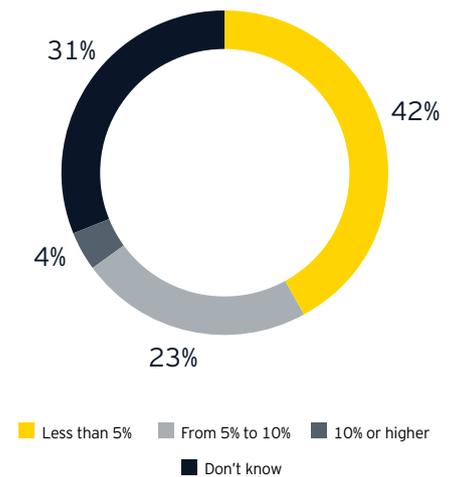
Deputy General Director of RESO-Garantia PJSC

Market growth forecasts and drivers



Compared with our last survey, respondents were more restrained this year in their assessment of the growth prospects for commercial healthcare. A significantly higher proportion of HCOs expect slow growth (less than 5%) or believe that the market will not grow at all (42% against 15% in 2017), while the number of participants predicting a moderate growth rate of 5-10% has halved and there are five times fewer respondents expecting to see significant growth (more than 10% per year). The increase in the proportion of respondents who found it impossible to give a quantitative estimate of market growth in the next few years (from 15% to 31%) is indicative of growing uncertainty and instability in the healthcare market.

Forecast of the rate of growth of the commercial healthcare market over the next three to five years



Thus, the majority of the study participants view increased prices as the main driver of market growth in the next few years. HCO representatives observed that the natural size of the commercial sector is very small compared with state medicine, and if the economy stagnates and effective demand drops, it will be very difficult to increase the number of patients using paid healthcare services, including through VMI.

Analysts at BusinesStat likewise refer to the inflation-based development of the commercial healthcare sector, predicting that the value of the market, including the VMI sector, will grow by an average of 8.3% mainly due to increases in the cost of appointments (average annual growth of 5.5% per year) and will reach RUB 943.9 billion by 2023. At the same time, they expect a gradual resumption of the trend in the quantity of appointments (average growth of 1.4% per year). In the period 2020-2023, the private healthcare market is predicted to grow 1% faster in Moscow than in Russia as a whole.⁸

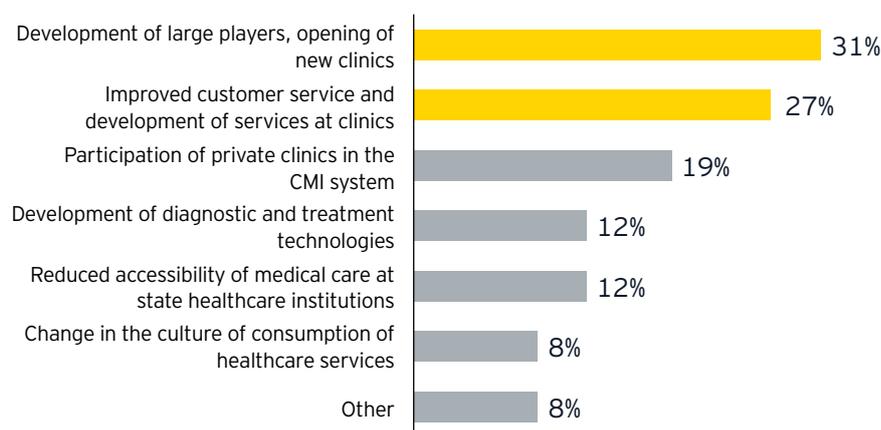
A total of 15% of the surveyed clinics believe that the current situation is not conducive to an increase in demand for good-quality private healthcare and may be more suited to small clinics in the mass segment and state healthcare institutions. Some respondents comment that the private healthcare market may see growth in a few years' time as market players embark on new projects and devise new ways of attracting patients to private clinics.

Drivers of market growth

Opinions on growth drivers in the private healthcare market have also changed significantly compared with the last study. While in 2017 half of the respondents referred to the reduced accessibility of medical care at state healthcare institutions as the main driver of increased demand for services of private clinics, participants in the current survey thought, on the contrary, that there would probably be a shift in patient flows towards municipal institutions owing to the growth in investment in the development of free healthcare, and particularly primary healthcare. Only 12% of those surveyed took the view that the efforts made by the state were insufficient and patients would continue to migrate from state to commercial clinics.

Around 30% of participants in the last survey observed that the development of the private healthcare market would be aided by improvements in the macroeconomic situation in the country/region where clinics were located and growth in real disposable income. However, current trends in the economy do not lead HCOs to expect any rise in patient wealth or increase in visits to private clinics in the next few years. Indeed, 15% of the respondents stressed that they expect to see a further decline in consumer spending power and even greater competition for patients.

Growth drivers in the private healthcare market



⁸ "Analysis of the healthcare services market in Russia in 2014-2018 and forecast for 2019-2023"; "Analysis of the healthcare services market in Moscow in 2014-2018 and forecast for 2019-2023"

According to 31% of those surveyed, the development of the commercial healthcare sector will be driven by major investment in the opening of new medical centres, the expansion of existing clinics and the takeover of small players by large networks. Some HCO representatives pointed to the high investment appeal of the healthcare industry, which arouses the interest of private investors. Others attributed the growth in investments, including by large networks, to the prospects for future recoupage through the expansion of activity in the CMI system if the state meets private clinics half-way by increasing quotas and tariffs.

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In Moscow the merging of clinics will continue. In the end there will be a finite number of healthcare institutions providing medical services for a particular section of the population. I see no reason to expect the appearance of new competitors in the next few years.

Representative of a network of federal city clinics

27% of respondents said that the growth of the private healthcare market would be driven by the strengthening of the competitive advantages of private HCOs, and in particular:

- ▶ expansion into new areas of healthcare services and the development of highly specialized service lines
- ▶ the introduction of telemedicine consultations
- ▶ the high professional level of medical personnel
- ▶ enhanced service elements (convenient appointments, including on public holidays and at weekends, availability of remote services such as online appointment booking, mobile applications and personal accounts)

19% of the surveyed HCOs think that the expansion of commercial healthcare will be bolstered by the increased involvement of private clinics in the CMI system in the area of high-technology care. Some study participants believe that significant changes can only happen if private organizations are given easier access to the state-funded healthcare system and pricing in the CMI system is liberalized/made more transparent.

In the opinion of 12% of the respondents, the growth of healthcare services will be driven by the development of the diagnostic capabilities of private healthcare and the introduction of innovative diagnostic and treatment technologies, which will increase the number of patients.

8% of the respondents believe that there will be a shift in the culture of the consumption of healthcare services in the next few years, as a result of which the younger generation will prefer high-quality medical care at private clinics and exert higher demand for preventive healthcare services.

Other identified drivers of growth in the commercial healthcare market are the development of medical tourism and the shrinking of the grey market for healthcare services as a result of its redistribution in favour of state clinics and private HCOs operating above-board.

In forecasting the future development of the industry, some of those surveyed said that in the long term the market would consist of a limited number of multidisciplinary players in the high price segment and private clinics in some of the highest-demand areas of medicine (such as dentistry, eye surgery and women's health).

Expert comments

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Today, private healthcare is a stable segment of the economy: healthcare as a whole makes up around 3% of GDP, with private medicine accounting for approximately 15% of that figure. Despite the fact that state healthcare has grown strongly over the last few years and will continue to grow thanks to the “Healthcare” national project, the private sector is expanding at a rate of around 5% a year and managing to retain its margins by virtue of the quality of medical care and service provided, the high standard of facilities and the focus on maximum convenience for the patient.

If we take the top twenty private organizations, their average revenue growth rate is 15-20%. The key drivers have been price rises and extensive growth of market leaders, with the opening of new clinics. Overall, however, the profit margins of healthcare companies have fallen over the last two years owing to higher salaries and an increased tax burden. In the longer term, I think we will see efforts to find a new type of private clinic. In Europe, for example, there are hospitals with clinical departments providing a whole range of healthcare services, and there are single-discipline or highly specialized private clinics, such as ophthalmology clinics. What we will probably see here is a progression towards more integrated clinics and eventual mergers and market consolidation. Recent deals in the industry bear this out. Another notable development is that private healthcare organizations are increasingly working together with pharmacy networks or opening pharmacies on their own premises in order to make it more convenient for patients to buy the medicines they need. But this raises questions about the regulation of the pharmacy business and the attractiveness of such investments, as pharma distributors often have higher margins.

Alexander Grot

President of the Association of Private Clinics of Moscow and the Central Federal District

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In terms of predicting how the commercial healthcare market will develop, we see no grounds to expect any increase in patient flows. Commercial medicine will grow largely in line with inflation. Even now, many commercial clinics owe some of their growth to CMI money. Competition will intensify and strong players with plenty of resources will hold their positions and win market share.

Dmitry Petrukhin

General Director and founder of the DocDoc online doctor search platform

Partnership with the state



Participation in the compulsory medical insurance system

The respondents' view on participation in the provision of outpatient services under the CMI system has not changed compared with our previous studies of the commercial healthcare market in Russia. The majority of participants continue to regard such activities as uneconomic owing to the fact that current state tariffs for this type of medical care not only make it unprofitable, but sometimes do not even cover the basic cost of providing the services. For this reason, many of those surveyed feel that partnership with the state under the CMI system is only worthwhile when it comes to providing high-technology medical care and IVF services.

Since 2014, high-technology medical care has been made more accessible through the inclusion of high-technology procedures in the basic CMI programme. The respondents view the gradual expansion of the range of procedures included in CMI and the fact that private clinics have been allowed to cover some of the requirement for such services as one of the key drivers of the commercial healthcare market. The survey participants consider that the provision of such services under the CMI system is one of the vectors for the further development of those services. Firstly, private clinics possess expensive equipment that need maximum utilization to provide a return on invested capital. Secondly, the respondents have the expertise needed to provide high-quality services for the treatment of complex health problems. Thirdly, the VMI market has stopped giving growth signals, reflecting the decline in consumer spending power.

Nevertheless, despite the advantages afforded by the opportunity to diversify their services and provide care under the CMI system, the majority of respondents still point to quite a few difficulties and areas of uncertainty associated with the receipt of state orders and partnership with the state. This is primarily to do with the lack of transparency in the distribution of quotas among market players.

The representative of one large federal city clinic observes that uncertainty over what quotas will be received makes it impossible to plan properly:

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We don't know what to focus on, even in the short term. It is difficult to make forecasts or make arrangements with suppliers or privately practising doctors who do operations with us.

Another key problem noted by the respondents is the difficulty in obtaining state orders. When quotas are distributed, preference is given to state clinics, which often have limited expertise and do not have sufficient infrastructure despite the increased investment in modernizing state hospitals in the federal cities over the last two years.

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We have expressed our willingness to the authorities to take on operations at the set rate. Altogether, though, we have received a very small volume of work, and we have to fight for patients every time... people are waiting years for their operations.

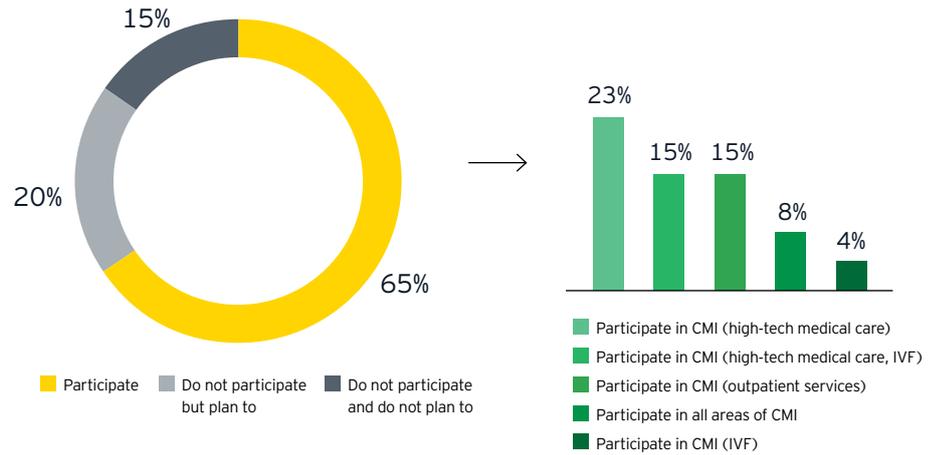
Representative of a federal city clinic

On the one hand, private clinics have the infrastructure and necessary expertise; on the other hand, they do not always receive the volume of work they need even though there are people who need the services. One HCO representative believes that the problem could be solved by abolishing quotas so that patients could go to the clinics of their choice to receive healthcare services under CMI. "This would promote healthy competition and raise the quality of healthcare services provided", he concludes.

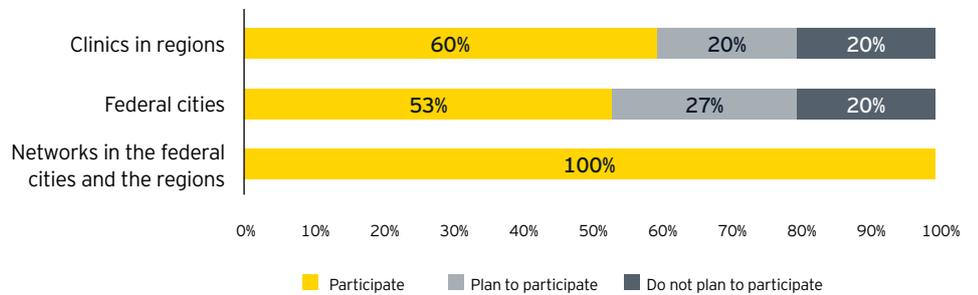
Healthcare organizations generally choose their areas of involvement in CMI based on their available competencies. 15% of the respondents provide both high-technology medical care and IVF services. 23% said that they only took part in state orders for high-technology care, while 8% participate in all possible areas of CMI. The number of clinics that provide outpatient services under CMI, despite their lack of appeal for healthcare organizations, was found to be 15% of those surveyed.

The study participants are willing to carry on working with the state in providing care under CMI regardless of the region. Moreover, large healthcare networks observe that they plan to expand their presence in the regions partly in order to be in a position to provide high-technology medical care.

Participation of clinics in CMI: distribution by type of services



Participation of clinics in CMI: geographical distribution



As in the last study, the main problems and constraints on the participation of private clinics in the CMI system are as follows:

- ▶ low CMI tariffs that do not cover the cost of providing services given the current number of patients in certain regions
- ▶ low volume of state orders, short-term contracts
- ▶ difficulties (e.g. of an administrative nature) in receiving quotas for high-tech care and IVF
- ▶ increased number of inspections and fines imposed in relation to services provided
- ▶ unintelligible rules of play and unclear prospects for development on the market

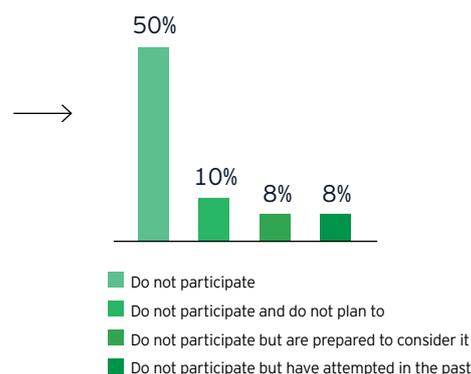
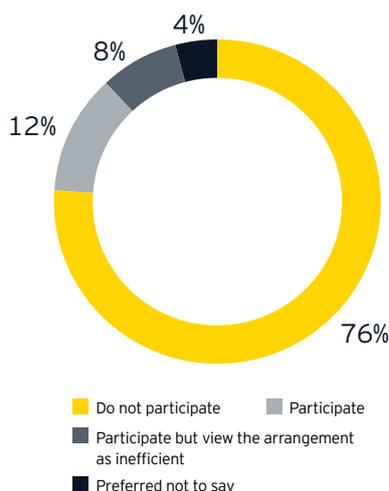
Participation in PPP projects

The survey showed that 20% of private clinics participate in public-private partnership projects. This matches the figure in our last study. The primary areas of cooperation indicated by the respondents are cancer care centres in the regions and the installation of high-technology equipment at existing state institutions.

Nevertheless, despite the past experience of PPP projects in Russian healthcare and the potential gains for private companies from participation in new projects, the majority of respondents remain unwilling to commit themselves to such joint projects. According to the results of the survey, only 8% of all respondents are considering partnership with the state in view of the low probability of successful realization. A large proportion of respondents already involved in PPP projects view them as inefficient. The proportion of respondents that have not participated in such projects and have no plans to do so is 60%.

The main reasons cited by private clinics for their unwillingness to work with the state were lack of confidence in future partnership with state authorities and the low economic efficiency of investments.

Participation of clinics in PPP projects



The main problems with the development of PPP are the same as in the last study and include:

- ▶ long time to resolve legal issues, deficiencies in legislation
- ▶ distrust on the part of private clinics: they think it possible the state may not fulfil its obligations
- ▶ lack of initiative on the part of the state
- ▶ low economic efficiency of PPP projects

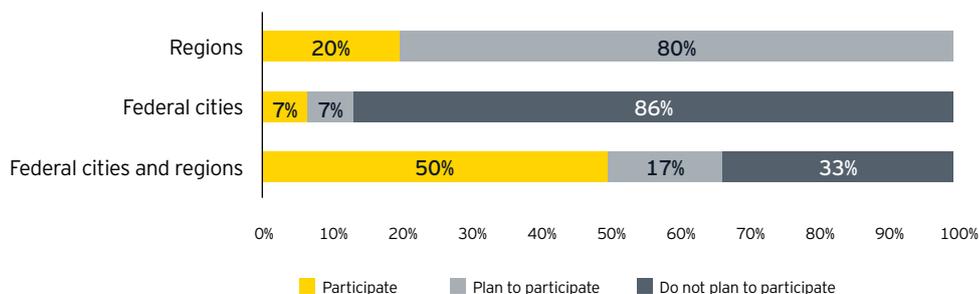
The problems noted by the survey participants in relation to partnership with the state as far as PPP projects are concerned are systemic and ubiquitous. Despite this, the respondents still express an interest in carrying out projects in the regions, including in towns with populations of less than a million, although it would be extremely difficult to do this without state involvement and initiatives.

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Regional projects can only take place jointly with the state.

Representative of a large federal city clinic

Participation of clinics in PPP projects: geographical distribution

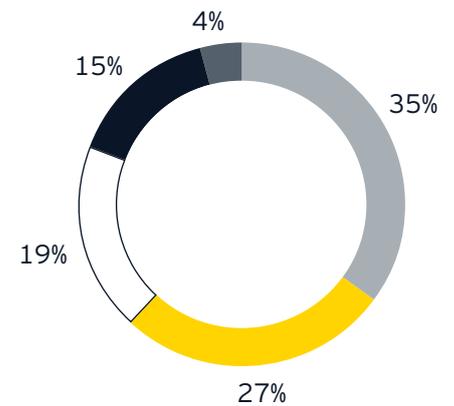


Important state measures affecting healthcare organizations in 2018-2019



77% of representatives of private clinics said that their activities were in one way or another affected by actions and decisions of the state. The remaining respondents consider that internal changes in state healthcare do not have a major impact on private medicine.

How the respondents view the actions of the state in the area of healthcare



- Decisions had a negative impact on the respondent's business
- The respondent sees both positive and negative decisions
- Nothing has changed in the respondent's segment
- Decisions had a positive impact on the respondent's business
- Difficult to say

The respondents had differing views regarding the state's activities and decisions in the area of healthcare. 27% of participants in the study said that decisions made by the state had both positive and negative impacts on their activities. 15% of respondents gave a positive assessment of the state's actions, noting only positive decisions. However, 35% of participants indicated that the state's actions had a negative impact on their activities. The proportion of respondents who saw the state's decisions and actions as having no impact on their activities was 19%.

The only unequivocally positive initiative, noted by 27% of respondents, was the extension of the zero rate of profits tax.

Other state initiatives are two-sided and tend to limit competition and the development of the healthcare system as a whole.

27% of the respondents also pointed to tougher licensing requirements, primarily in the field of plastic surgery. As a result, many clinics were forced to stop offering such services. At the same time, some HCOs said that the withdrawal of licences from some market players opened up opportunities for them to develop this service line and recruit professional plastic surgeons. Clinics also mentioned certain unreasonable licensing requirements in the area of high technology. However, there was substantial concern among the survey participants (12%) about the issue of dual licensing of their activities, which is currently being discussed at government level.

Although clinics take a positive view of the inclusion of private HCOs in the CMI system, 23% of participants in the study noted the following problems in this area:

- ▶ lack of transparency about how tariffs are determined and non-uniformity of tariffs
- ▶ lack of clear rules for quota allocation
- ▶ problems in receiving payment for care provided above the limit

Another 23% of the survey participants did not think that any important changes had been made by the state.

19% of respondents noted investments by the state in fitting out healthcare institutions and especially in raising doctors' salaries. Federal city respondents who participate in the provision of care in the CMI segment were sensitive to the mass purchasing of high-technology equipment for state healthcare institutions and see this as lowering their chances of obtaining state orders. At the same time, in order to maintain their professional competencies, private clinics have no option but to bring their doctors' salaries into line with the levels at state organizations. The respondents bemoan the fact that the financing of state healthcare institutions is not dependent on their performance, whereas it is different for commercial clinics. As a result, this initiative has negatively affected the profit margins of private clinics owing to the fact that they have to raise salaries for medical personnel without having sources from which to increase the payroll fund.

The creation of the unified information network was noted by 15% of respondents. Clinics agree that this initiative is, in itself, useful both for the state and for clinics themselves; however, they complain that there are still no procedural regulations, forms or clear mechanisms for implementing this law, even though it came into force on 1 January 2019.

Other negative developments mentioned by clinics included the following:

- ▶ The adoption of the telemedicine law. Although it is legal for clinics to provide telemedicine services, 12% of the respondents stated that "the way it is regulated makes it practically impossible for this type of service to be used in accordance with the law". Issues relating to the creation of the unified information network and telemedicine are discussed in more detail in the "Current talking points in healthcare" section.
- ▶ The introduction of requirements relating to internal quality control of medical care places a high additional burden on clinics and effectively requires them to perform the functions of state regulatory bodies.
- ▶ Budget cuts for national programmes.
- ▶ The decision to establish a centralized laboratory that will operate, inter alia, in Russian regions.

Expert comments

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The most noticeable and positive state initiative is the indefinite extension of the zero rate of profits tax, which has helped to preserve the investment appeal of the industry.

Among the events that have had a negative impact on private healthcare organizations is the termination of social security contribution relief for companies that apply the simplified taxation system. There are quite a few companies operating under the simplified taxation system in healthcare, and they have seen their costs jump by about 20%. With salary increases to contend with on top of that, small healthcare companies have found themselves struggling to break even. This has had a major impact on small and medium-sized businesses in the healthcare sector. And since these small healthcare organizations perform a social role and help to ease the burden on state polyclinics, especially in the regions, we think they should be given support.

Every year we gather the opinions of market players from various regions on the subject of licensing. The majority believe that the existing rules could be simplified. It is worth pointing out that the state is already moving in that direction, applying a risk model and reducing the number of inspections. Separate mention must be made of equipment standards, which at present place a very high capital expenditure burden on private clinics.

Perhaps it would make sense to apply the practices used in other countries whereby standards are categorized according to the type of clinic. There is one set of equipment requirements for a dental surgery with one chair, another for a single-discipline clinic, and another for a multidisciplinary hospital that provides emergency care. The rules set by the Federal Consumer Rights Service on the regulation of healthcare organizations could also be revised to take account of best practices.

The fact that private organizations have been allowed to take part in the national project and the CMI system is a positive thing, but as yet neither the Health Ministry nor the Compulsory Medical Insurance Fund have set target parameters for that participation. A positive example that can be cited is the collaboration under the “Cancer care” element of the national project, where large market players have been given a defined role in the provision of that medical care, which will have a favourable impact first and foremost on the treatment of sick patients. We need to see more examples of this kind for national project objectives relating to cardiovascular diseases and the development of first aid, paediatrics and healthcare staff.

Alexander Grot

President of the Association
of Private Clinics in Moscow and
the Central Federal District

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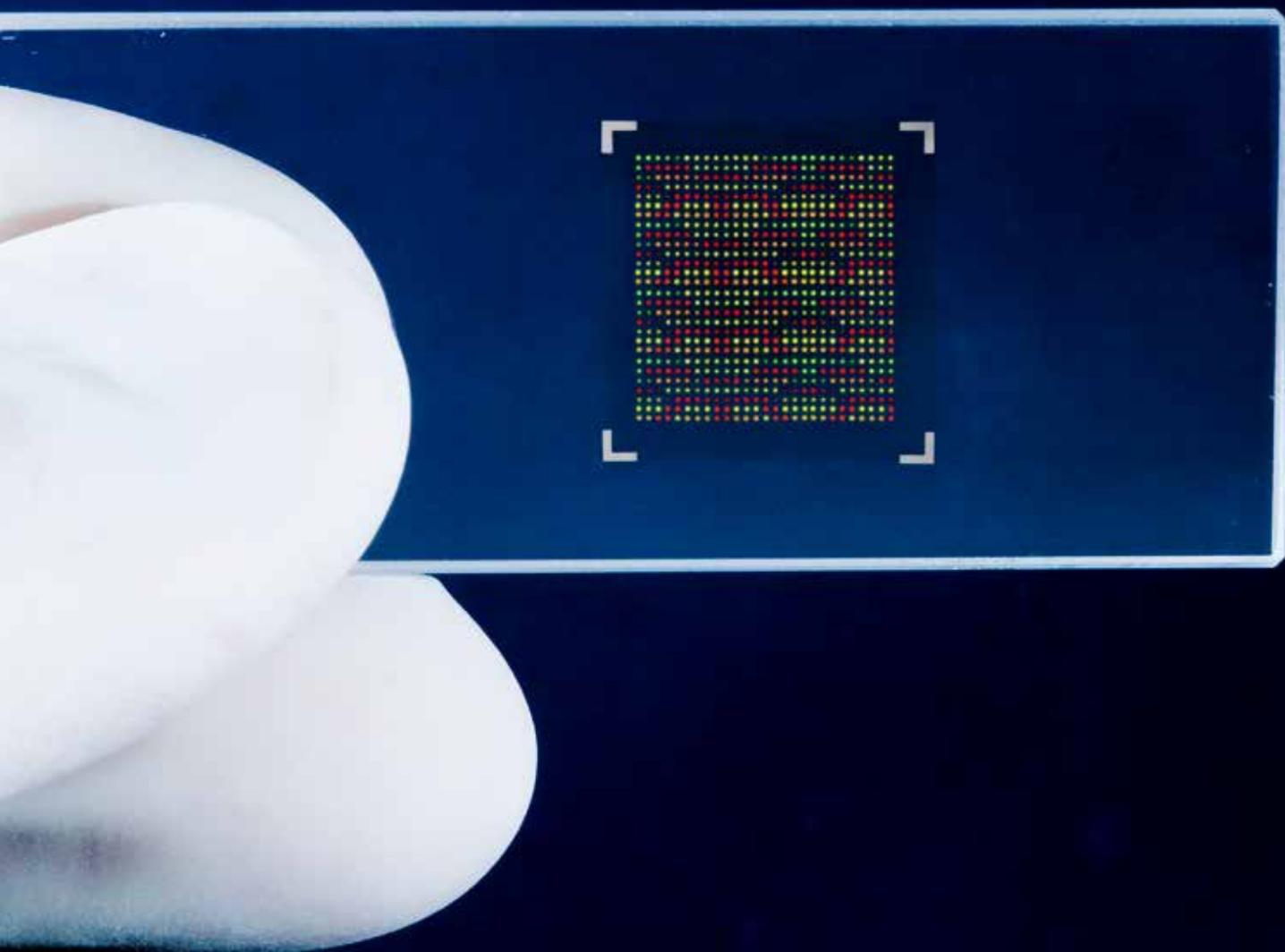
The need to set standards for healthcare organizations, in both the private and the state sector, is due to the fact that the head of a healthcare institution does not always possess sufficient expertise to decide on the most appropriate and uniform mechanisms for the functioning of healthcare organizations. And in view of the social function that healthcare organizations perform, the state aims to regulate this sphere. That regulation mostly affects state organizations, but private companies cannot be excluded given that they form part of the overall healthcare system. This is why state regulation is unavoidable, both in terms of preliminary checks and in terms of monitoring of the effectiveness of healthcare provision. The activities of organizations that operate in the CMI system are subject to special checks on compliance with quality requirements,

but there are also quality criteria for institutions operating outside CMI which can be applied by the Federal Healthcare Supervision Service in carrying out inspections. All in all, the system for evaluating healthcare organizations is still being developed and is aimed first and foremost at raising the quality, safety and effectiveness of medical care for patients.

Vitaly Omelyanovsky

General Director of the “Healthcare Evaluation and Quality Control Centre” federal institution of the Ministry of Healthcare of the Russian Federation

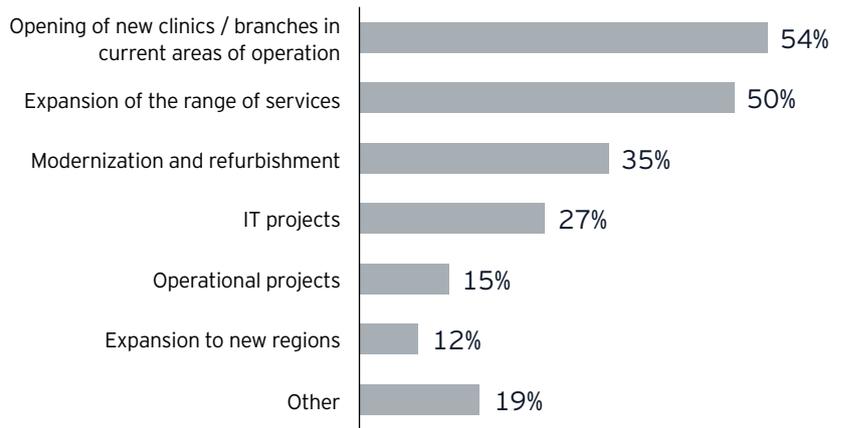
Development of healthcare organizations: performance indicators, projects and key problems



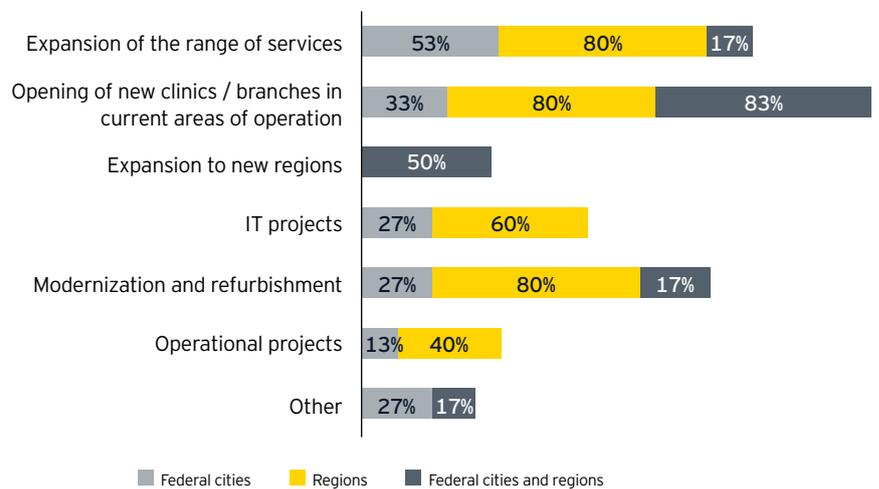
Projects carried out in 2018-2019

Unlike the 2016-2017 period, when 67% of participants in the study carried out projects to expand their range of healthcare services and raise operating efficiency, in 2018-2019 the majority of participants were focused on network expansion. Over that period, a total of 66% of respondents opened new clinics or branches, which is broadly in line with the plans laid down by the participants in our last study (70% of participants planned to open new clinics by 2020). Projects to expand the range of healthcare services were in second place, carried out by half of the respondents. This is somewhat different from the intentions indicated by clinics in the last survey, when only 33% planned to expand the range of healthcare services.

Projects carried out by HCOs in 2018-2019



Projects carried out by HCOs in 2018-2019: geographical distribution



Thus, 54% of the respondents opened new clinics and/or branches in their current areas of operation. New clinics in existing areas of operation were opened mainly by federal networks and regional operators, while only a third of participants operating

only in federal cities did so. A further 12%, composed solely of federal networks (50%), opened clinics in regions that were new to them, primarily by acquiring regional players.

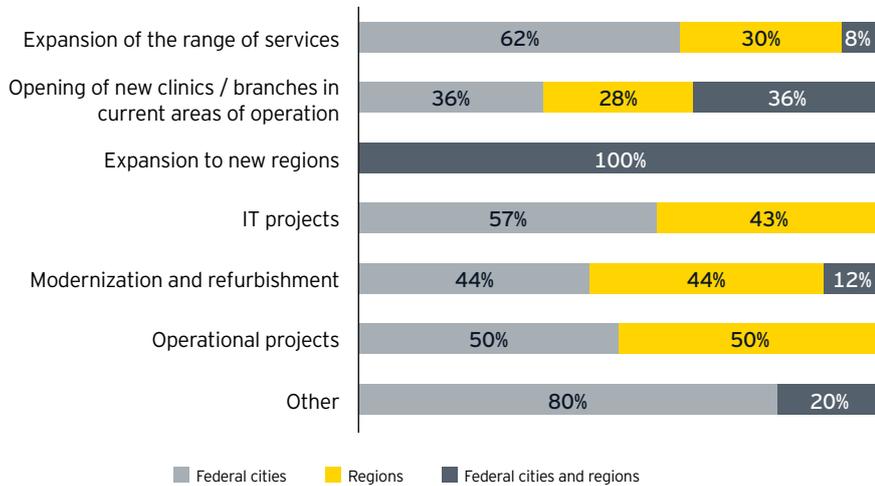
More than half of federal city respondents were intent on expanding the range of healthcare services, as were 80% of regional clinics. Among large networks operating in both the federal cities and the regions, this was true of only 17%, which may be explained by the fact that many of them already cover practically the full range of healthcare services and there is little scope for expansion. Altogether, exactly half of the respondents carried out

projects of this kind in 2018-2019.

The most popular areas for expanding the range of services were:

- ▶ Ophthalmology
- ▶ Cancer care, including chemotherapy
- ▶ Paediatrics
- ▶ Cosmetology

Projects carried out: geographical distribution



35% of the participants carried out modernization and refurbishment projects, which mostly involves purchasing equipment and making changes needed to launch new areas of healthcare services.

27% of the respondents carried out a range of information technology projects during the last two years. More than half of them (57%) worked on implementing or integrating new information systems/ analytical platforms. 43% of participants that carried out IT projects said that they were aimed at the introduction of telemedicine services, while the development of mobile applications, the implementation of elements of artificial intelligence and the automation of processes and standards were each indicated by 29%.

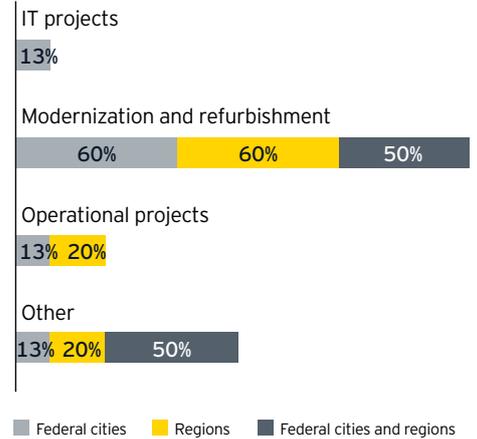
15% of those surveyed had carried out operational projects, the most popular of which were the implementation of organizational changes, including staff optimization, training projects and business process optimization to improve the running of clinics.

19% of the respondents carried out other projects, among which were:

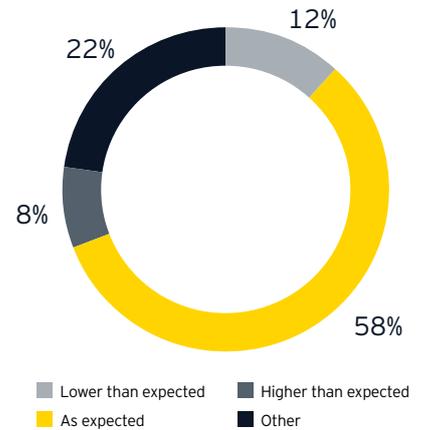
- ▶ franchise development
- ▶ development of products for CMI patients
- ▶ social projects
- ▶ clinic closures

Return on investments

Return on projects carried out: geographical distribution



Return on investments



Only 8% of respondents reported their return on investments as higher than expected, while the majority (58%) said that it was as expected, and a further 12% admitted that their expectations had been higher.

Other answers were given by 22% of participants, including:

- ▶ too early to tell
- ▶ no investments were made in the period concerned
- ▶ varying assessments for 2018-2019
- ▶ varying assessments for projects in federal cities and regions within one network

Changes in the performance indicators of healthcare organizations

According to data published by BusinesStat, in 2018 the aggregate size of the legal commercial healthcare market and the VMI sector in Russia amounted to RUB 633.4 billion, representing 10% growth on the preceding year. Unlike in previous periods, when the growth was driven primarily by the cost factor while the volume of services provided fell, in 2018 the increase was driven both by the increase in the average cost of a medical consultation (by 5.1%) and growth in the number of consultations (by 4.4%).

Healthcare companies that took part in the survey generally demonstrated more positive growth dynamics relative to the private healthcare market as a whole.



Revenue and operating margins

The aggregate revenue of 88% of companies that took part in the study grew by 21.8% in 2018, with the highest revenue growth shown by healthcare organizations operating in both the federal cities and the regions (23.6%) and the lowest shown by regional clinics (9.6%). The revenue of companies operating only on the Moscow and St Petersburg market rose by an average of 22.2%.

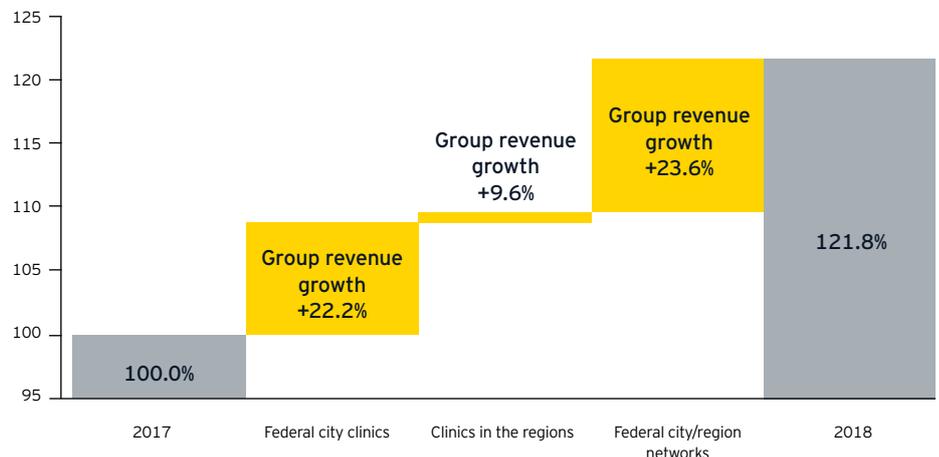
Despite the continued adverse trends on the commercial healthcare market and in the VMI segment (economizing by patients and by insurance companies) and the emergent migration of patients to state clinics, the surveyed companies saw growth in revenue supported by a rise in the average bill of patients treated and an increase in the volume of services provided. The improved performance of healthcare organizations is largely attributable to projects carried out in the period concerned: the opening of new clinics and branches providing an

influx of patients, the development of customer service elements (such as online appointment booking and mobile applications) and the expansion of the range of healthcare services on offer, as well as effective arrangements with

insurance companies and more active participation in the CMI programme.

In 2017-2018 a major driver of revenue growth for clinics in federal cities was the significant increase in the volume of

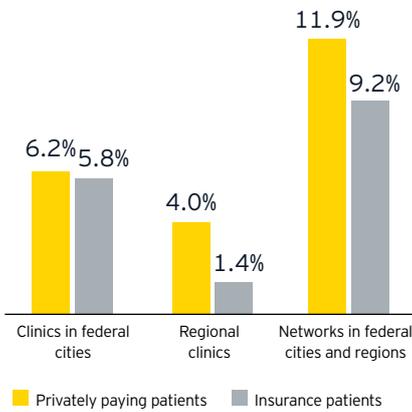
Revenue growth of healthcare companies in 2018: geographical distribution*



* Calculations are based on data supplied by 88% of companies.

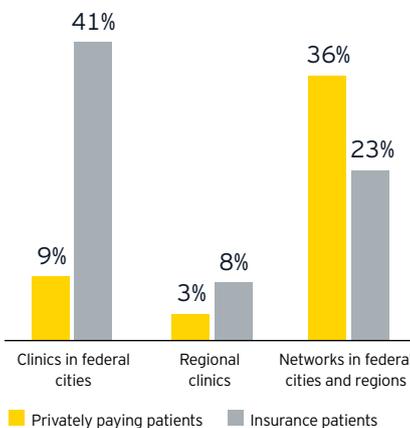
services provided to insurance patients (by 41%) and the rise in the average bill of privately paying patients (by 6.2%). Companies operating in the federal cities and the regions were able to increase revenue substantially owing to increases in both average bills and the volume of services provided, especially for commercial patients. The revenue growth of regional clinics was restrained by the moderate rise in average bills for insurance patients (by 1.4%) and the low increase in the volume of services for privately paying patients (3%).

Change in the average bill for privately paying and insurance patients in 2017-2018*



* Calculations are based on data supplied by 65% of companies.

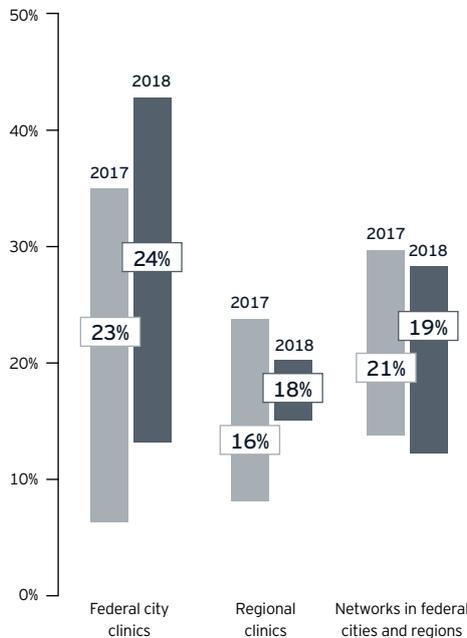
Change in the volume of healthcare services for privately paying and insurance patients in 2017-2018*



* Calculations are based on data supplied by 54% of companies.

On average, the 46% of companies that provided data saw their operating profit margins rise from 21% in 2017 to 22% in 2018. Federal city clinics showed differing trends in their operating margins and greater variation in the lowest and highest values of that indicator owing to the fact that they cover a range of price segments. Average operating margin figures for regional clinics and network companies operating in both federal cities and the regions showed a slightly downward trajectory and lower maximum margins overall than federal city clinics.

Operating profit margins in 2017-2018: geographical distribution*



* Calculations are based on data supplied by 46% of companies.

Changes in prices for healthcare services

The average bill for commercial patients in 2018 was driven up by higher tariffs for medical services: 40% of the surveyed HCOs raised their prices in line with inflation, while 46% increased prices for individuals by more than 5%. 14% of clinics opted to leave prices unchanged or even lower them.

The largest growth in tariffs for commercial patients in 2018 was recorded at federal city clinics (an average of 7%), while regional HCOs and networks operating in both the federal cities and the regions increased prices by an average of 5%. However, the overall rate of growth in tariffs for services for individuals at the clinics under review slowed by 2% compared with 2017. This indicated that healthcare organizations were reacting to the downtrend in effective demand and attempting to retain patients through moderate rises in prices for healthcare services.

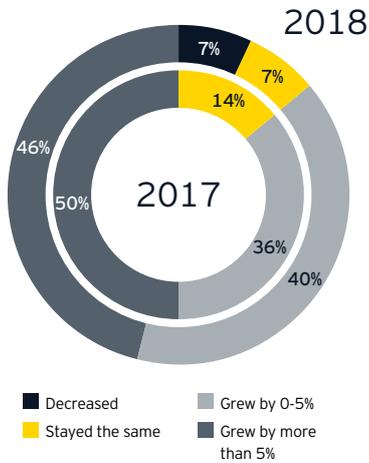
In the case of insurance patients, on the contrary, the proportion of clinics that lowered prices or kept them unchanged rose to 28% against 8% in 2017, while there was a decrease in the number of companies that raised prices. The moderate growth of insurance tariffs may be explained by the dependence of some clinics on insurance companies that are currently pursuing cost-saving policies. HCO representatives observed that they were willing to keep prices, and therefore the average bill of insurance patients, at the same level in exchange for increased volumes of registrations from insurers.



Our strategy is to increase the number of registered VMI patients without increasing the average bill for one patient.

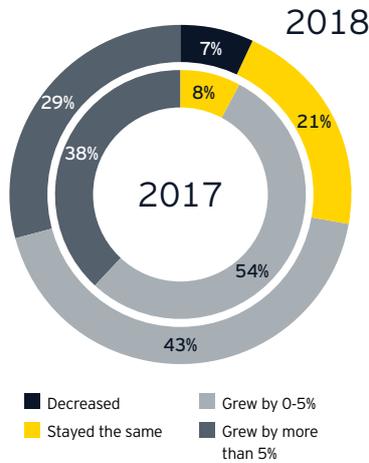
Representative of a federal city medical centre

Changes in tariffs for services for commercial patients in 2017-2018*



* Calculations are based on data supplied by 58% of companies.

Changes in tariffs for services for insurance patients in 2017-2018*

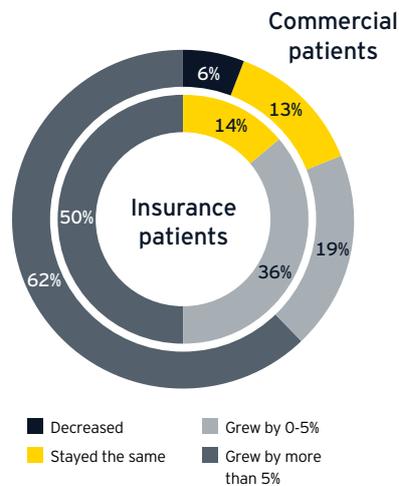


* Calculations are based on data supplied by 58% of companies.

The highest rise in prices for insurance patients in 2018 was again recorded for federal city clinics (an average rise of 4.5%), while networks operating in both the federal cities and the regions did not generally increase charges and regional clinics raised them by 3%. The growth in prices for services provided to insurance patients at the surveyed HCOs likewise slowed by 2% compared with 2017.

In 2019 clinics were more active in raising tariffs for all categories of patients. Of the 58% HCOs that provided data, more than half increased prices for insurance patients above the rate of inflation, while 62% said they had done so for commercial patients. This may be because healthcare organizations expected a reduction in the flow of patients and the volume of services purchased by them and compensated for possible losses by raising tariffs.

Changes in tariffs for services for commercial and insurance patients in 2019*

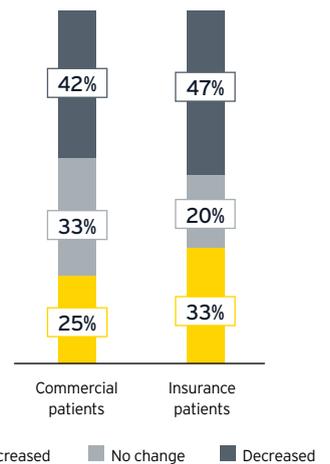


* Calculations are based on data supplied by 58% of companies.

Changes in the quantity of services in an average bill

According to data from 62% of surveyed HCOs, 2018 saw a reduction in the consumption of healthcare services per patient caused by the decline in effective demand and the trend towards buying only the most essential services at private clinics while visiting state healthcare institutions for basic consultations and tests. At the same time, the consumption of healthcare services by insurance patients is influenced by cuts in insurance programmes and increased scrutiny of insured events by companies.

Changes in the quantity of services in an average bill for commercial and insurance patients in 2017-2018*



* Calculations are based on data supplied by 62% of companies.

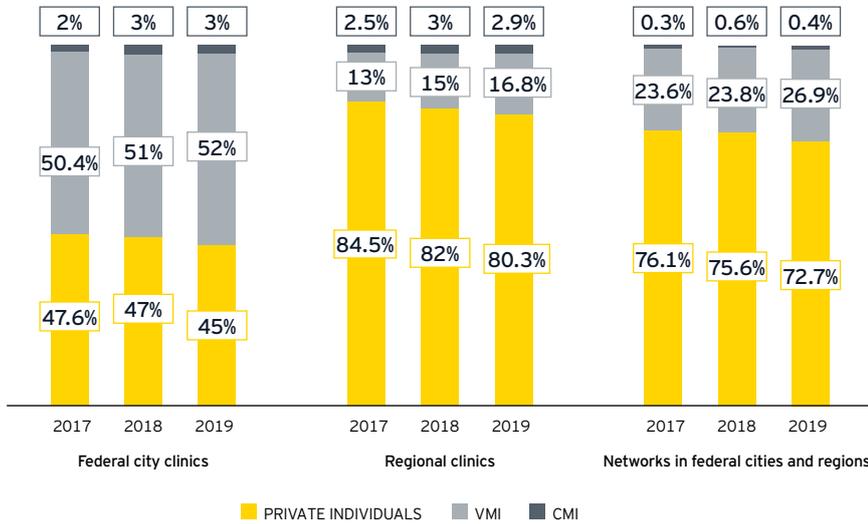
The situation is somewhat different for insurance and private patients: 33% of respondents noted an increase in the quantity of healthcare services in the average bill of an insurance patient, while only a quarter noted the same for private individuals. At the same time, 47% of clinics recorded a decrease in the quantity of healthcare services in the average bill of an insurance patient, while a slightly lower proportion - 42% - noted the same for private patients.

The average quantity of medical services recorded in the bill of insurance patients in 2018 was 2.3, compared with 2.9 for commercial patients.

Changes in patient flows

Around a third of the study participants observed that the segment distribution of patients at their healthcare organizations had changed little in the period 2018-2019. The other respondents mentioned varying trends.

Structure of patient flows in 2017-2019: geographical distribution



31% of respondents said that they had observed increased numbers of VMI patients at their clinics in the last few years, driven both by deliberate steps taken by HCOs as part of business development strategies and by external factors (such as insurance companies transferring patients to clinics with more loyal pricing in order to save money, patients themselves choosing clinics under the direct access system or the increased presence of employer companies in the HCO's region).

“The VMI flow is steadily growing. This is because we have gone over to stop-loss policies and devote a lot of time and effort to making acceptable arrangements with insurance companies.

Representative of a network of clinics in the federal cities and the regions

HCOs are divided in their opinions on this trend. Some clinics plan to maintain a high proportion of insurance patients or increase numbers further: despite the lower prices of VMI services and difficulties dealing with insurance companies, “it is a guaranteed steady income that reduces the risk of cash shortages that sometimes arise with privately paying patients”. Furthermore, people who receive treatment at a clinic under VMI may choose to pay for additional services that do not form part of their insurance package.

Other HCOs, on the contrary, would like to reduce the flow of VMI patients owing to the fact that they “compete with the intake of privately paying patients”, which is less profitable for clinics owing to the low insurance tariffs, especially in the regions. Some of those surveyed also acknowledged that despite good relationships with insurance companies, healthcare organizations are uncertain about the reliability of patient flows under the VMI system.

“There are always changes happening on our insurance market. We see instability. There is no certainty as to whether the VMI patient flow will be as constant and reliable tomorrow as it is today.

Representative of a network of federal city clinics

Some VMI-focused respondents observed that they had thought about increasing the proportion of privately paying patients but “calculated that the marginal gain on one such patient was not very high”.

23% of the surveyed HCOs have observed an increase in the proportion of commercial patients, which is partly due to changes on the voluntary medical insurance market: patients who used to go to a specific clinic under a private policy but now for whatever reason no longer have that policy (for example, their employer no longer pays for employees' insurance) continue by force of habit to go to the same clinic on a paid basis. The growth in the proportion of private individuals in the make-up of patient flows is also driven by the use by insurance companies of policies with deductibles and the additional payments that have to be made by VMI patients for certain services that are not covered by their insurance package.

The respondents also said that they were making determined efforts to increase the proportion of cash patients in their revenue structure, for instance through marketing events, IT projects, the analysis of consumer preferences and development of personalized service programmes and the targeting of healthcare services. Some HCO representatives say that the high level of competition on the healthcare market makes it essential to make every effort to acquire as many commercial patients as possible.

“

We are putting all our efforts into increasing the flow of cash patients in our revenue structure. Ideally, we would like to have 100% privately paying patients, but that is impossible because many VMI patients go to the same doctors for many years.

Representative of a network of federal city clinics

The survey participants estimate that the annual increase in the number of privately paying patients at their clinics is 10-25% and may vary from one healthcare field to another. At the same time, some HCO representatives observed that the commercial healthcare market is not growing, “i.e. we are not seeing more people willing to part with cash for medical services”. This means that the increase comes from price rises or the redistribution of patients from other clinics.

Another trend in the last few years that was observed by 23% of those surveyed is the increase in the proportion of CMI patients in the structure of clinics’ patient flows. This is largely due to the increased participation of HCOs in the CMI system for high-technology treatments, but some clinics are also increasing the volume of outpatient care provided under the CMI system.

“

We react to what is happening on the market. That it is why the CMI segment has been growing at our practice since 2015.

Representative of a network of clinics in the federal cities and the regions

Acquiring CMI patients is viewed by private clinics partly as a way of utilizing capacity, including inpatient facilities, and increasing revenue, and partly as a means of raising patients’ loyalty to the clinic. At the same time, HCO representatives stressed that tariffs in the CMI system are unprofitable for private clinics, in addition to which it often means working on credit, since payment for services provided “may come in after two months or may take five months”.

Some HCO representatives observed that they had tried working in the CMI system but given up owing to the low economic efficiency of that business area.

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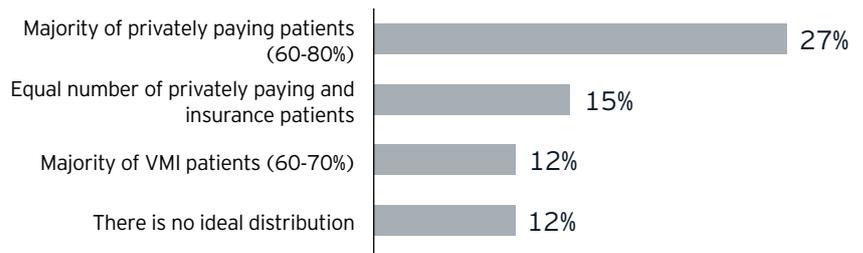
If we have quotas, where people have been to us before as cash patients, we prefer to operate on them under CMI, which increases the patient’s loyalty to the clinic. As we see it, easing the financial burden on the patient is a way to ensure their future custom.

Representative of a federal city medical centre

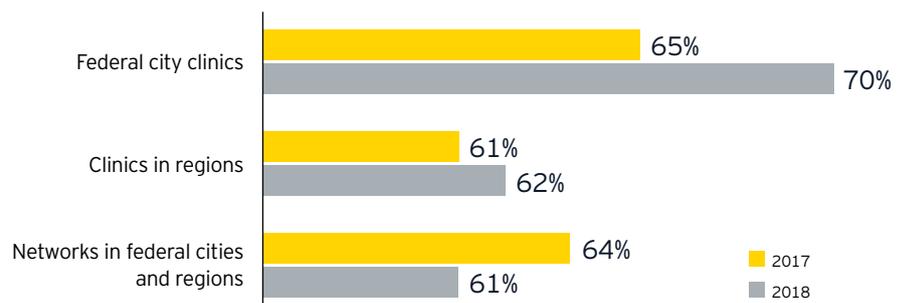
In answer to the question about the ideal structure of patient flows, 27% of respondents said that they would like to see a majority of commercial patients, 15% would like equal proportions of privately paying and insurance patients so as to diversify risks, and 12% would prefer to focus mainly on insurance patients under VMI. At the same time, another 12% of survey participants said that there was no ideal distribution, and it made sense for private clinics to accumulate patients in any business area that is both economically beneficial for the healthcare organization itself and “provides all-round medical care for patients, including diagnostic tests, consultations and treatment”.

Average utilization figures provided by 62% of HCOs suggest that the flow of patients to private clinics in Moscow, St Petersburg and the regions is increasing while the number of patients using healthcare networks operating both in the federal cities and in the regions is somewhat declining.

Respondents’ opinions about the ideal distribution of patients



Average utilization of clinics in 2017-2018 (outpatient segment)*



* Calculations are based on data supplied by 62% of companies.

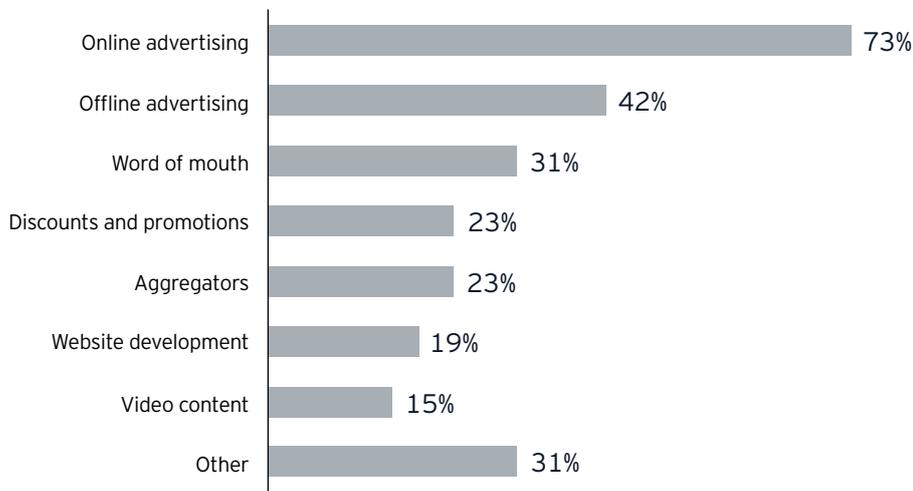
Patient acquisition and retention tools



The study participants observed that it is becoming increasingly difficult to acquire new patients, which is why most HCOs use a range of tools to do this. Over 70% of the respondents identified Internet advertising, particularly SEO promotion and contextual advertising, as their main customer acquisition channel. Representatives of some clinics said that they resorted to contextual advertising only to boost service areas in which there was underutilization or to promote the services of an inpatient facility. The surveyed companies emphasised that online advertising not only helped to acquire new patients, but also to maintain the interest of existing patients, since they would find out about other services or doctors on the Internet and come back to the clinic with new needs.

27% of the respondents identified social networks as an important promotional channel. Clinics take different approaches to using these: some HCOs post targeted advertising of healthcare services, others use social networks to publish informational materials that may be of interest to users, while other organizations have opted to raise the profiles of individual doctors and build recognition of them among the audience.

Patient acquisition tools



“ People are fed up of the point-blank ‘buy a doctor’-type advertising. It gets on people’s nerves. We use social networks to post light, accessible health-related information, as a way of staying in touch with patients.

Representative of a federal city medical centre

42% of healthcare organizations continue to use offline advertising, including exterior advertising, television and radio, and the printed press. At the same time, many noted that they were cutting expenditure on those promotion tools, as they were not convinced of their effectiveness especially now that many modern consumers have migrated to the Internet. Increasingly, therefore, clinics use offline advertising only for image purposes or for particular age categories.

“

In 2018 we spent a lot on brand promotion in expensive publications. In 2019 we stopped doing this and saw no negative change. We kept one mass media channel for older patients.

Representative of a network of federal city clinics

31% of respondents indicated that their main means of promotion was word of mouth, whereby new patients come to a clinic at the recommendation of relatives or acquaintances. This accounts for over 50-60% of first-time patients. As a result, it is becoming especially important to improve customer service, recruit qualified doctors and develop their skills in communicating with patients with the aid of specialized training courses. Some HCO representatives said that as part of their staffing policy they were trying to recruit doctors with well-established reputations, who help to bring in patients. Others observed that they planned to intensify the use of referral programmes to increase the number of patients who come to the clinic by recommendation.

“

We don't invest much in advertising. We rely more on good relationships with insurance companies and word of mouth, because you can advertise medical care and get yourself a patient, but if the patient is not satisfied, the advertising will work against you. The money is better spent on doctors

Representative of a network of federal city clinics

As effective demand decreases, 23% of healthcare organizations regard discounts and promotions for healthcare services, including the offering of packaged products or special programmes (for example, on people's birthdays), as an effective means of patient acquisition. However, some of those surveyed believe that such practices harm business rather than being an effective means of promotion. Furthermore, first-time patients attracted by bargain prices are unlikely to be willing to acquire additional services prescribed by a doctor or become regular, loyal clients. On the other hand, the use of discounts may be justified if there is a need to generate demand for a particular service area in a short time.

“

Like other network clinics with a large number of private patients, we use retail tools, including discount promotions. But we are now moving away from that and have stopped promotions. It eats away at EBITDA and, apart from anything else, does long-term damage to the business.

Representative of a network of regional clinics

Almost a quarter of surveyed clinics use aggregators and lead generators to boost patient flows. Those that did so were exclusively organizations operating in the federal cities. They observed that, because aggregators represent such a large number of users, not working with them would mean losing potential patients to competitors. However, some respondents are not considering this promotional tool for themselves.

Around 20% of the survey participants indicated the importance of improving their own website to make it as easy-to-use and informative as possible for both new and existing patients.

15% of HCOs are working on the creation of video content to boost interest in services and doctors. Some make video tours of their healthcare centres and create patient feedback videos, while others use video to introduce their doctors. Respondents said that there was a high demand for webinars and live phone-ins with doctors, which generate an immediate surge in appointments with the specialists involved.

“
As soon as we launched a regular weekly live phone-in with a doctor in one region, we saw immediate growth in demand to see that specialist. Doctors play a very important role in patient acquisition.

Representative of a network of clinics in the federal cities and the regions

The surveyed HCOs also indicated other patient acquisition tools:

- ▶ monitoring the socio-demographic situation in a region of operation and Health Ministry statistics (morbidity, availability of personnel, services most in demand, services for which there is insufficient supply) with a view to developing targeted offerings based on actual needs
- ▶ opening branches/small polyclinics in locations with high traffic where patients can obtain initial consultations, have tests or get referred to the main clinic if more complex procedures are needed
- ▶ the publication of op-ed articles and recommendations by doctors on popular Internet forums, especially for female audiences, and participation of doctors in conferences and interviews

- ▶ holding various free events, such as where high-profile doctors meet pregnant women to give them useful information on maternity and the family environment; health days at enterprises; free schools for patients; Nordic walking lessons as part of social programmes, etc.
- ▶ clinic open days
- ▶ preventive health leaflets (such as ways of preventing cardiovascular diseases) distributed among employees of enterprises or via a mobile application
- ▶ promotion through privately practising doctors who are contracted to hold consultations and perform operations at the clinic, encouraging an influx of new patients who get to know the clinic

The respondents were generally divided in their views on patient acquisition: some said that marketing tools were not particularly effective in increasing patient flows to the clinic, while others observed that, on the contrary, the intensification of competition for patients over the last few years made it even more necessary to invest in the marketing and promotion of an HCO's brand and healthcare service offerings.

The participants in the study were more united in their opinion on retaining patients, emphasising that the main challenge for healthcare organizations, especially in view of the emergent trend of some patients migrating to state

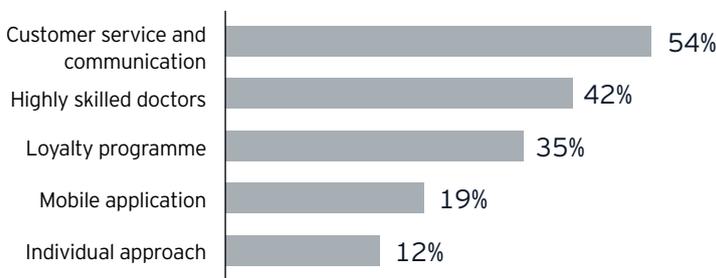
healthcare institutions, was to develop long-term relationships and increase the number of return patients. There was much similarity in the retention tools used by the majority of clinics.

More than half of the respondents said that the retention of patients was achieved by providing a high standard of customer service and maintaining constant communication with them at all stages of contact with the clinic. If patients find it easy to get an appointment and obtain all the information they need, as well as test results, and they receive attentive and pleasant treatment throughout all of this, they will be more inclined to come back to the same healthcare organization the next time. The surveyed HCOs also referred to the importance of regular contact with patients, such as reminding them of the need to make an appointment, monitoring treatment, offering check-ups, etc., for which purposes the companies either set up a dedicated department or deliver the functions through online systems (personal account, electronic mail or mobile application). Some clinic representatives said that they planned to introduce mobile applications and focus on developing CRM systems so as to improve the processes of communicating with patients.

“
We have set up a unit that regularly calls patients to remind them of the need to re-attend and offer them an appointment time. We are now thinking of developing an individual mobile application to deliver push notifications.

Representative of a network of regional clinics

Patient retention tools used



Over 20% of HCOs indicated that they paid particular attention to evaluating customer satisfaction and handling negative reviews: if patients see that a clinic has an organized quality management system and that their opinion is systematically reviewed and taken into account, this increases their confidence in and loyalty towards a specific clinic.

Another important retention factor identified by 42% of respondents is the skill level of medical personnel and the ability of a doctor to communicate with the patient. The latter aspect is gaining importance, since patients are not always able to assess the quality of medical care and their impression of their visit is formed on the basis of the conversations they have. On the one hand, the doctor must inspire trust and refrain from trying to sell the patient additional services, while on the other hand he should encourage the patient to undergo a full series of tests or make a further appointment to see how his or her treatment is progressing. Many clinics said that it was very difficult to achieve that balance, and they placed great emphasis on training doctors to communicate effectively with patients.

“

The main thing is to ensure that doctors do not start pushing patients into buying services, because a doctor’s job is to heal, not to sell. On the other hand, if a doctor sees that a patient may benefit from a particular service that we provide, and the patient does not know about it, it is our job to give that information to the patient.

Representative of a federal city medical centre

35% of those surveyed have loyalty programmes at their clinics, which enable patients to accumulate points and receive discounts and benefits on healthcare services or other offerings. However, some clinic representatives believe that such programmes do little to develop long-term relationships with patients, because the discounts attract a certain category of patients who are highly price-sensitive, meaning that they would willingly switch to a clinic with lower prices or to state healthcare institutions.

Around 20% of the survey participants observed that retention was positively affected by the introduction of mobile applications which bring together all the information the patient needs together with an appointment booking system, updating of medical records, feedback functions and notifications, as well as the ability to receive remote consultations. This makes it inconvenient for the patient to change clinic, and he is more likely to remain loyal. However, the effect of this factor is somewhat limited, since by no means all patients use healthcare apps.

12% of the surveyed HCOs believe that another factor that is starting to affect patient loyalty is the demand for the personalization of service offerings based on a patient’s medical profile and the development of individual health management programmes. Clinic representatives believe that the impact of this factor will only increase as consumer preferences shift in favour of personalized healthcare.

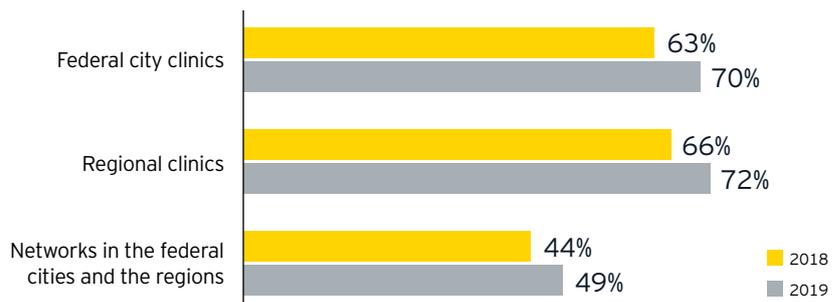
The responses of the survey participants to the question on patient retention tools are largely consistent with the key trends in demand for healthcare services as described in the “Changes in consumer preferences: trends and forecasts” section, such as higher customer service expectations and high expectations of the quality of medical services. According to data provided by half of the surveyed companies, the proportion of return patients at their clinics is gradually rising, with the highest average figures typically shown by federal city and regional HCOs. In the case of the latter, this may be due to the low level of competition on the healthcare market in the regions, making it more likely that patients will go to the same private clinics more often. In big cities, despite the high level of competition, the proportion of return patients at the surveyed HCOs is largely due to the high number of insurance patients and people’s preferences to visit specific doctors or conveniently situated clinics.

“

It is difficult to persuade a patient to come back if he did not like the clinic, the quality of services provided or even the doctor. The main factor that determines whether patients will return is therefore the quality of care provided at any stage of contact with him, from the call centre to each member of the clinic’s staff.

Representative of a network of federal city clinics

Average proportion of return patients in 2018-2019



* Calculations are based on data provided by 50% of companies

Planned projects and investment up to 2023



Projects

Over 70% of participants in the study plan to expand their range of healthcare services and launch new service lines over the next two to three years.

The second most popular answer, chosen by 58% of respondents, was the opening of new clinics and the expansion of current facilities in the regions where they operate. Meanwhile, a little under a third of those surveyed are thinking of expanding into new regions.

38% of those surveyed will be working on internal operational projects, while another 31% are planning information technology projects.

27% of participants do not plan any substantial changes and will work on developing existing lines of business, maintaining market position and determining a new development strategy.

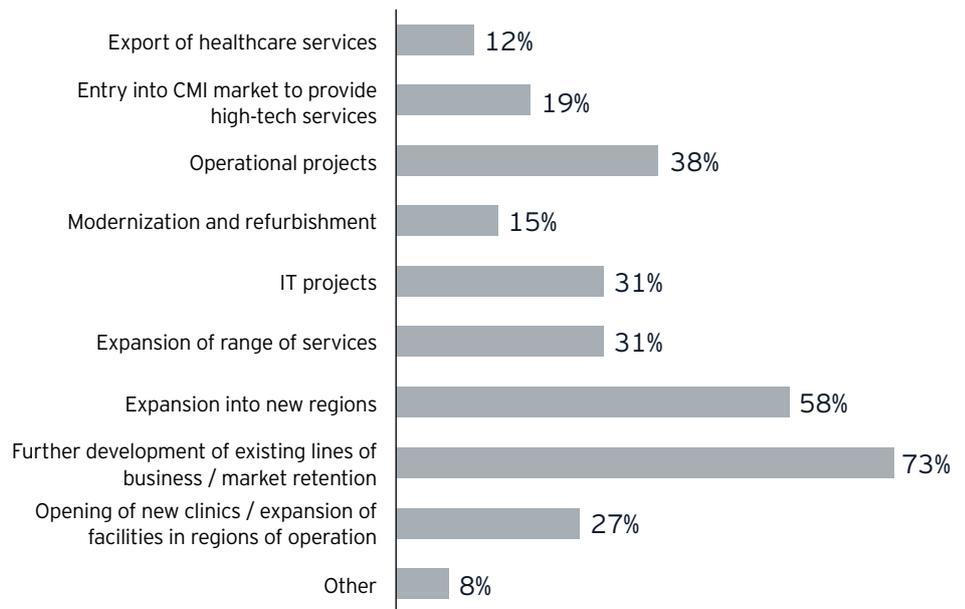
Despite all the difficulties noted by the participants in interaction with the state, 19% of clinics identified entry into the CMI sector in the area of high-technology medical care or the further development of this field as a strategic focus in the medium term.

Modernization and refurbishment are planned by 15% respondents, most of whom refer to the purchase of equipment as an essential step if they are to retain their current market position.

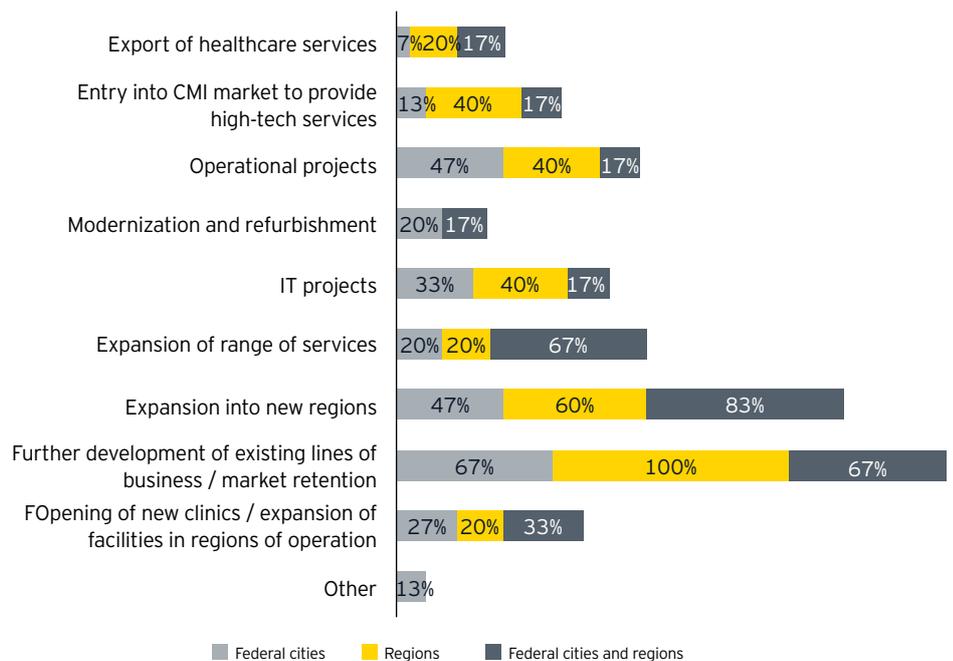
12% of those surveyed identified exports of healthcare services as one of their strategic aims.

In addition to the above, clinics also mentioned telemedicine projects and plans to look for investors.

Planned projects



Planned projects: geographical distribution



Expansion of the range of healthcare services

73% of the respondents plan to expand their range of healthcare services. The launching of new service lines is being considered by almost 70% of federal city clinics based and the same proportion of federal networks, and by 100% of regional HCOs.

Areas of expansion identified by the participants include the following:

- ▶ Surgery - 26%
- ▶ Cancer care and paediatrics - 21% each
- ▶ Reproductive technologies and B2B areas, including occupational health checks and occupational medicine - 16% each
- ▶ Cardiovascular diseases and inpatient care - 11% each;
- ▶ Participants additionally mentioned ophthalmology, plastic surgery, integrative medicine and rehabilitation.

Opening of new clinics and expansion of existing facilities

47% of federal city healthcare organizations said they had plans to open new clinics in the next two to three years. Almost half of the participants (47%) plan to expand within their regions of operation. Only 20% are planning to expand into new regions: two thirds of these are in the early stages of discussing this initiative, while the remaining third plan to move into the regions under arrangements with the state.

Among HCOs represented in federal cities and regions, 83% are thinking of opening clinics: 67% intend to open them in new regions, while the remaining 16% do not plan to expand geographically. Expansion into new regions will be achieved mainly through the acquisition of regional players.

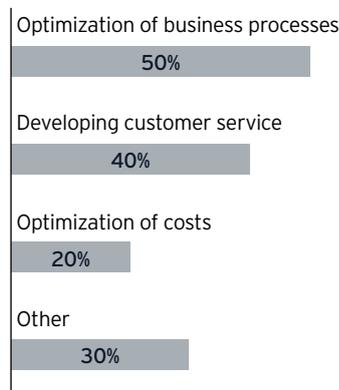
60% of regional HCOs also plan to open new clinics, of which 20% are thinking of moving into regions as well as expanding within their current area of operation.

Operational projects

47% of federal city clinics and 17% of clinics operating in both the federal cities and the regions plan to carry out operational projects. Only 40% of regional clinics have such plans.

Half of the participants are planning to optimize their business processes, 40% will carry out projects aimed at improving customer services, while 20% want to optimize their costs.

Planned operational projects



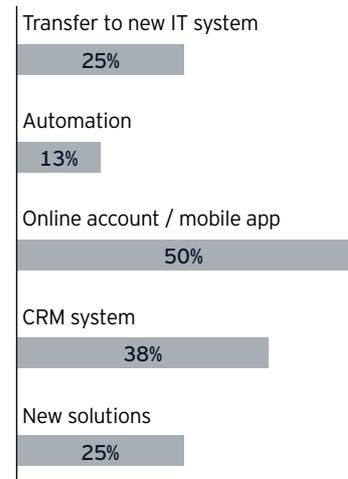
30% of the respondents plan to carry out other operational projects, such as business standardization, brand and image development and resource management projects.

IT projects

17% of federal networks and a third of federal city clinics are planning information technology projects in the near future. Among regional players, only 40% have such plans.

Half of the respondents plan to introduce or update personal account systems or mobile applications, while another 38% have projects to introduce/enhance CRM systems.

Planned IT projects



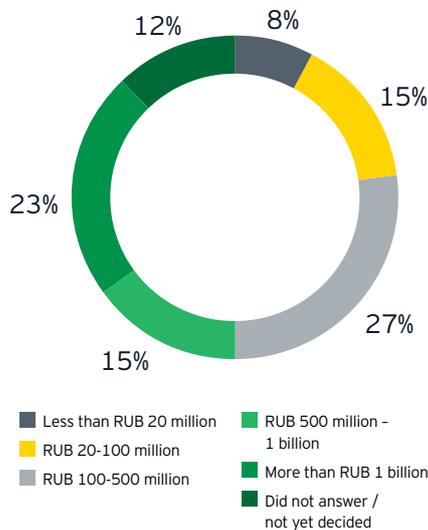
A quarter of the participants plan to work on launching a new IT system at their clinics, and the same proportion are intent on looking for and implementing innovative IT solutions.

13% plan to work on process automation as a whole.

Planned investment to 2023

In total, 38% of surveyed clinics plan to invest over RUB 0.5 billion in projects over the next three years.

Planned investment to 2023



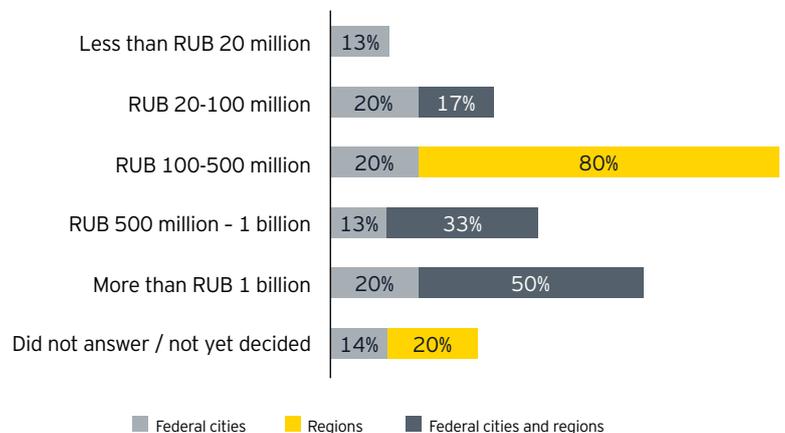
Among federal city clinics, a third plan to invest more than RUB 0.5 billion, 20% from RUB 100 to 500 million and the same number from RUB 20 to 100 million. 13% of clinics plan to spend less than RUB 20 million, while the remaining respondents have not yet worked out the figures.

An absolute majority of regional clinics - 80% - are investing RUB 100 to 500 million in development, while the remaining 20% are not yet ready to give figures.

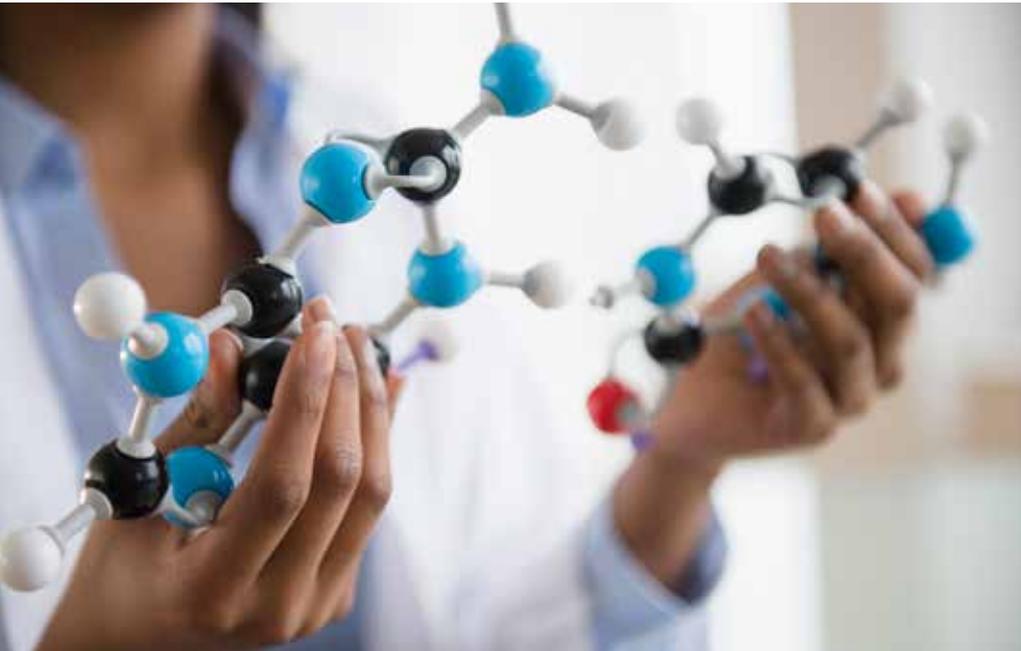
Only 17% of federal networks will be spending RUB 20 to 100 million. The remaining 83% intend to spend over RUB 0.5 billion, with 50% of these planning to invest over RUB 1 billion.



Planned investment to 2023: geographical distribution



Current problems faced by healthcare organizations



The respondents pointed to the following problems encountered by their HCOs:

- ▶ staffing problems
- ▶ problems relating to interaction with the state
- ▶ external threats

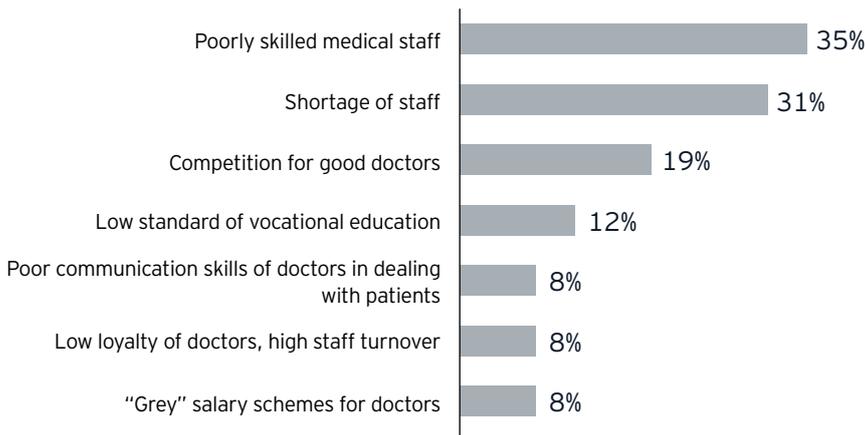
Staffing problems

As in the last study, the respondents observed that staffing remains a very urgent problem in the healthcare industry.

The most common staffing problems noted by the study participants were the low skill level of medical staff (35%) and the general shortage of specialists on the market (31%). Many clinics agreed that the reason for the low skill level was the deterioration in the quality of medical education and the reluctance of doctors to take the initiative in improving their skills. The staff shortage problem is especially acute in the regions. The respondents observe that it is not only doctors that are in short supply, but administrative staff as well, at the same time pointing out that nowadays doctors must not only be good professionals but must also have good communication skills, since this helps to increase patient loyalty.

The respondents are still looking for a way out of the situation. Some observed that good specialists are expensive, and it makes better financial sense for clinics to train their own staff than to look for them on the market. Doctors at such clinics either do teaching themselves or work with faculties at medical schools, where they can see which students are suitable for eventual recruitment. These HCOs have to invest in the training and development of young specialists, but at the same time they will be assured of the quality of the

Staffing problems



The main problem is staff. The state does not invest in education, so the longer we go on, the more acute the shortage of skilled medical staff will be in both state and private healthcare.

Representative of a large healthcare network

staff they recruit. Some participants in the study stressed that developing its own specialists gives a clinic another important advantage: it will not have to keep meeting demands from their doctors regarding medical devices, equipment, salary, etc.

The respondents are increasingly concerned about the growing competition for doctors. The greatest pressure on the market comes from the state's roadmap measures to raise the salaries of doctors at state institutions. On the one hand, raising salaries has a positive impact on the popularity of the profession, which should help reduce the shortage of certain categories of doctors in the long term. On the other hand, the growing payroll costs of private clinics force them to reduce their own margins or raise prices for the end consumer. At the same time, medical personnel are becoming less loyal and more demanding on their employers, which increases staff turnover.

“

These days it is the doctors who are in charge. They dictate their own terms. They have become less loyal, knowing that it won't take them long to find another job.

Representative of a large healthcare network

Representatives of large medical centres not only point out the presence on the market of employers who pay “grey” salaries to their employees in order to preserve their margins, but also see this as a manifestation of unfair competition.

Problems relating to interaction with the state

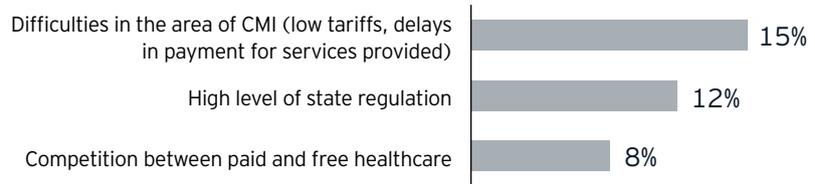
The number of respondents who identified problematic interaction with the state as one of their main problems has risen over the last few years. Most said that the actions and decisions of the state affected their activities in one way or another.

The main difficulties identified by the survey participants are complicated arrangements in the area of CMI, strict regulation of their activities by the state and growing competition from state clinics.

Difficulties relating to CMI were caused by the lack of transparency in the setting of quotas for the provision of high-tech medical services, low tariffs for outpatient care and delays in payment for services provided.

Alongside growing competition with state clinics for doctors, competition for patients has also intensified as consumer spending power declines. In the last few years, the state has invested a lot of money in modernizing its healthcare infrastructure and a large proportion of quotas for high-technology medical care go to state clinics.

Problems relating to interaction with the state



Another problem highlighted by the respondents is the highly regulated nature of the industry.

External threats

The participants identified a number of problems that were grouped together as external threats. These include:

- ▶ the difficult macroeconomic situation for private business, which is reflected in the reduced spending power of patients
- ▶ the high cost of financing for investment projects
- ▶ high rental rates
- ▶ the high cost of imported equipment

In addition to macroeconomic problems, the respondents point to increased pressure from insurance companies and the lack of effective information systems on the market.

Current talking points in healthcare



Telemedicine

The current situation

2019 was the second year in which Russia's new telemedicine legislation was in effect. Although the wording of the law is not ideal, there were high hopes among society and healthcare organizations for the development of telemedicine services in Russia. A number of projects were launched in this area.

There are different models through which telemedicine is organized on the Russian market, including online doctor search and booking services (DocDoc, Yandex. Health, Medkompas, Medbooking, etc.), classic healthcare clinics involved in online projects (Doctor Ryadom, ABC-Medicine, Doc+, et al.) and well-known marketplaces such as Health Mail.Ru, Qapsula, and others.

However, it would be premature to claim that online booking and consultations have become widely used everywhere. There is no uniform approach to the sale of telemedicine services in Russia. Until recently, most remote consultations were doctor-to-doctor. There is a view that telemedicine services are most effective as a supplement to physical visits to the clinic, e.g. in order to adjust treatment after an initial appointment or advise on test results.

However, market players are not losing faith in the future of telemedicine in Russia. Sberbank, the DocDoc online health platform (part of the Sberbank ecosystem) and the Vita pharmacy network have signed a trilateral memorandum on the extension of cooperation in the field of telemedicine

to 2020, under which Vita offered its customers a bonus in the form of a month's free access to telemedicine services.⁹

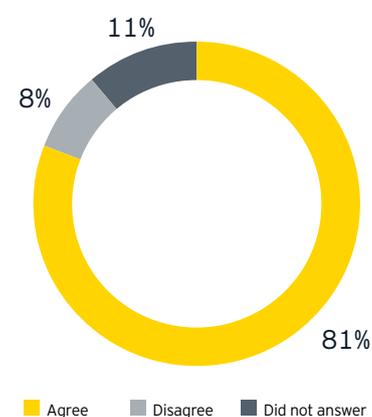
Projects planned by Doctor Ryadom and Askonamed on Sakhalin promise to kickstart the development of telemedicine in Russia. The region's authorities have decided to include telemedicine services in the state-funded healthcare programme. On 31 October 2019 doctors working for the Doctor Ryadom clinic network conducted their first online consultations for residents of Sakhalin.¹⁰ This marked the beginning of the non-commercial trial of a project expected to be launched in the near future. Doctor Ryadom's product is targeted at every inhabitant of the region. Now, anyone who wants to can have a consultation with a doctor via a mobile application. The Askonamed project uses the "doctor-to-doctor" format to hold remote case conferences and resolve complex clinical cases, but usually with the patient's involvement. Consultations are conducted across 36 polyclinics in the region. Both types of consultations will be paid for out of CMI funds. Successful trials for these projects could result in private operators of telemedicine services gaining access to the compulsory medical insurance system.

Attitudes of the respondents to telemedicine

In our last study we examined the subject of telemedicine in considerable detail and found that over 60% took a positive view of this field: more than half were actively considering the introduction of telemedicine at their organizations, and 37% were in discussions over, or had already launched, telemedicine projects.

Today, over 80% of the study participants say that telemedicine projects have fallen short of expectations. 14% of them assert that telemedicine was a marketing move from the outset, and only 8% take the opposite view.

Do you agree with the statement that telemedicine projects have fallen short of expectations?

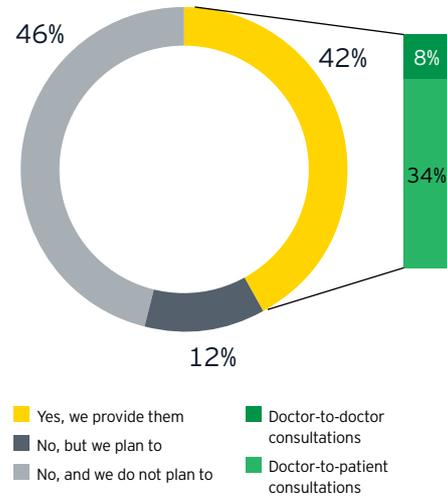


At the time of the survey, over 50% of respondent were already providing or planned to provide telemedicine services.

⁹ <https://medvestnik.ru/content/news/Sberbank-i-apteki-Vita-prodoljat-sovmestnyi-proekt-v-oblasti-telemeditsiny.html>

¹⁰ <https://medvestnik.ru/content/articles/Telemedicina-poluchila-tarif-OMS.html>

Does your HCO provide telemedicine services?



18% of those who answered in the affirmative provide occasional services in the “doctor-to-doctor” format, while 82% provide some primary and mainly secondary consultations in the “doctor-to-patient” format.

44% of clinics that provide telemedicine services do so as part of customer service and do not charge an extra fee for it.

36% of those that provide telemedicine services plan to develop them further.

Reasons for lack of success

Almost half of those who believe that telemedicine projects have fallen short of expectations identify legislative restrictions as the main reason.

Clinics observe that the state is not yet ready for telemedicine to operate under the “doctor-to-patient” format. It is mostly used for case conferences and “doctor-to-doctor” consultations without a diagnosis being made.

The second highest reason for projects not succeeding is resistance from doctors themselves.

As in the last survey, many respondents report that doctors and the medical community are hostile to the development of telemedicine. Doctors are adherents of classic healthcare and face-to-face appointments and are unwilling to give consultations remotely.

Some respondents say that this problem must be addressed by means of systematic measures aimed at doctors.

33% of the respondents indicated the low level of demand and the mentality of Russian people as the reason why such projects were not successful. Clinics say that patients are not yet ready to entrust their health to a doctor with whom they have to communicate electronically rather than in person, and that there is not yet a conscious demand for such services.

Those who support such services suggest that they are like Uber or Delivery Club for healthcare. Rather than a way of simplifying the healthcare process, it has ended up as a niche service for low-income people.

Representative of a clinic

19% of participants said that telemedicine was misunderstood and unworkable from the outset.

Common misconceptions about telemedicine as something that could take the place of traditional methods led to unfounded expectations.

Representative of a clinic

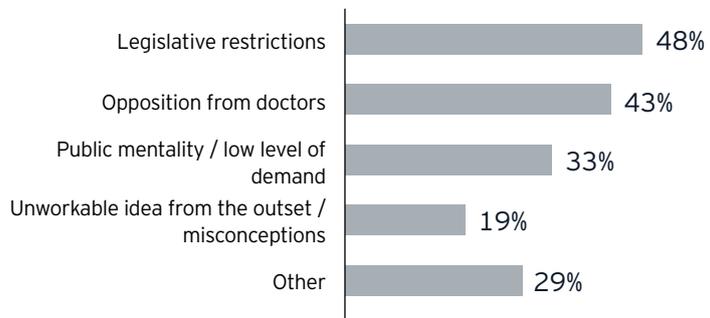
And nearly 30% gave other answers, including:

- ▶ lack of technical facilities needed to carry out projects
- ▶ not all market players operate within a legal framework

If everyone played according to the same rules, as stated and prescribed in the telemedicine law, the market would find a place for it.

Representative of a clinic

Why, in your view, has telemedicine fallen short of expectations?



What needs to change

In answer to the question "What needs to be done for telemedicine projects to be more successful?", more than 50% of respondents pointed to the need for a review of the legislative and technical framework.

Clinics mainly spoke of the need to obtain permission to conduct initial consultations in some disease areas in certain cases, to make a diagnosis based on certified data transmitted via digital technology and to conduct case conferences with international partners.

Almost a third of the survey participants thought that patient-oriented measures, i.e. making sure patients are fully informed of the capabilities of telemedicine, were key to success. Clinics must have proper tools and processes (schedule, mobile application, professional equipment for doctors and high-quality connections) and clear payment systems for telemedicine services.

23% of those surveyed indicated the need for doctor-oriented measures, including changes to the medical education system.

It was also mentioned that the current growth in the number of criminal cases against doctors creates a risk that, even if changes are made to the law, doctors will be afraid of giving opinions, making diagnoses and accepting legal responsibility.

27% of respondents do not believe in the future of telemedicine or consider that it is workable only in very limited format:

- ▶ monitoring of chronic illnesses
- ▶ use in remote areas with limited access to healthcare institutions
- ▶ transfer of data

Predictions

In discussing the future of telemedicine, 35% of the survey participants observed that they saw no cause to expect changes over the next three years, and in some cases over the next five years.



I don't believe in telemedicine as a line of business and revenue in the next three to five years. But everyone will be doing it, including us.

Representative of a clinic

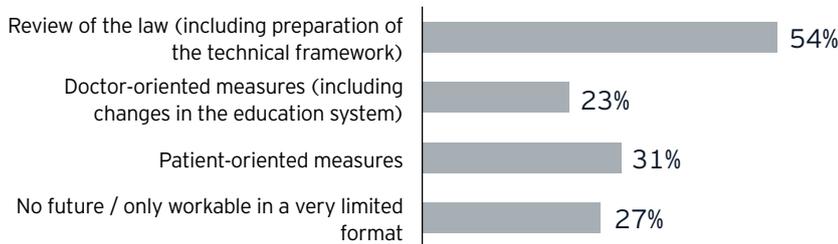
Almost a third of those surveyed (31%) expect changes in this area.

12% of the respondents see telemedicine as a social service to be provided by the state to low-income people living in areas where there may be a lack of qualified medical staff.

Another 12% said that telemedicine is beneficial for insurance companies and it is they that are driving the development of this area.

The majority of participants in the study are unanimous that there will be a demand for telemedicine services as they offer convenience for patients, but that they will not become a profitable area of business for private clinics.

What needs to be done for telemedicine services to be more successful?



Expert comments

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Telemedicine, like any new technology, has to be used in the format in which the existing law allows. Today, many clinics and insurance companies are finding that telemedicine services have a place and there is a demand for them. Telemedicine is not yet of great interest to investors, but from the point of view of legal regulation and technical implementation telemedicine in Russia is at the same level as in European countries. As this service develops, demand will grow.

Alexander Grot

President of the Association
of Private Clinics of Moscow and
the Central Federal District

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I think the main question surrounding the development of telemedicine at the moment is financing, i.e. how the services should be paid for. A doctor who provides a remote consultation has to be remunerated for doing so, and his services have to be funded out of overall payment for patient treatment, i.e. taken out of the healthcare organization's earnings, which means that a conflict of interest arises. Medical research centres are now receiving additional government funding for telemedicine services. That approach might work at the stage of launching a telemedicine system, but ultimately a way has to be found of incorporating telemedicine into existing financing arrangements rather than treating it as an add-on. And it is important for people who make use of telemedicine services to understand the specific advantages of this system.

Vitaly Omelyanovsky

General Director of the "Healthcare Evaluation and Quality
Control Centre" federal institution of the Ministry of Healthcare
of the Russian Federation

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If telemedicine is to become widely used in Russia, it is essential to develop an appropriate culture for the consumption and provision of the service, which means training doctors, changing the old ways of thinking among doctors and managers of clinics and making the consumer aware of the advantages of telemedicine, including through social advertising.

Olga Suvorova

Deputy General Director
of RESO-Garantia PJSC

“

In my view, there was too much hype around the appearance of telemedicine, as is often the case with new developments, and many people pinned big hopes on it. I do not believe that telemedicine is a tool for all-round improvement. It is just one of the available tools for digitalizing a person's path through the healthcare system, and the experience of other countries shows that telemedicine does not work separately from insurance. Both in the USA and in Britain it has been integrated into either state or private insurance systems. Telemedicine can be an effective tool for managing patient flow and developing good management in healthcare, but to that end it has to be integrated with offline consumer experience and preventive medicine.

Telemedicine could act as a sort of medical concierge, i.e. performing a patient routing function. It may provide a way of conducting online consultations, helping to manage chronic health problems, etc. We view telemedicine as a means of improving customer service and consumer experience, for instance by enabling us to direct patients to the appropriate clinics more efficiently. In other words, it is more a tool for making the process of obtaining healthcare services more convenient than for resolving global infrastructure problems in national healthcare, because that requires the involvement of the state.

The law on telemedicine in its current form does not allow the doctor to make a formal diagnosis, which limits its usefulness, but what can be done within the law still offers cost-saving opportunities for insurance companies.”

Mark Sanevich

General Director and co-founder
of BestDoctor

“

We have made a telemedicine aggregator and brought together some of the market players. Furthermore, we have launched our own telemedicine solution. I have a lot of belief in it, and this is the most promising line of business for us. At the moment we are doing 350 consultations a day. In eighteen months or so we will be earning more as DocDoc-telemedicine than as Docdoc-clinic appointments.

Dmitry Petrukhin

General Director and founder
of the DocDoc online doctor
search platform

Prescription drug insurance

Initiative

The need to introduce a universal prescription drug insurance system in Russia has been discussed for the last decade. The strategy for drug provision to the population of the Russian Federation in the period up to 2025, drawn up and approved by the Health Ministry in 2013, provides for the formation of a rational drug provision system, balanced with available resources and based on efficient use of medicinal products. In 2019 President Putin instructed the Health Ministry to report on the initial results of the operation of this drug provision system in 2023. The current system of subsidized provision in the outpatient segment covers no more than 19% of the population, comprising particular groups such as disabled persons, children under three years of age, low-income categories and patients with particular diseases included in special drug supply programmes.¹¹

Before introducing a new nationwide system, however, the Health Ministry plans to make improvements to the current system. Specifically, it aims to create a unified register of people entitled to drug subsidies that will include both federal and regional beneficiaries, minimize the overlap between federal and regional subsidy programmes and launch pilot projects aimed at finding optimal mechanisms for the transition to the new system.

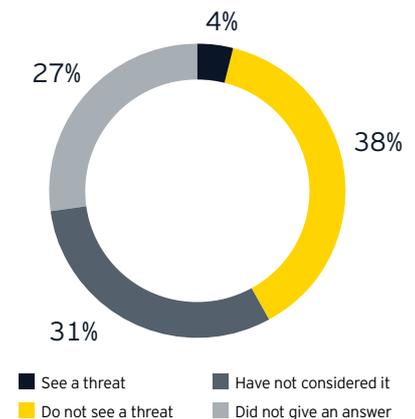
2020 should see the start of pilot projects in a number of regions of Russia aimed at outpatients who have suffered strokes, heart attacks and other acute cardiovascular diseases or vascular procedures. The government has allocated RUB 10.5 billion from the federal budget for these purposes.¹²

So far, however, a unified architecture for the new system of universal drug provision has yet to be worked out, with no firm decisions made about the basic principles of the system (drug insurance or drug provision), how it will be financed and whether patients will have to pay some of the cost, the order of priority for placing individual categories of patients on the programme, etc. The absence of a clear idea about Russia's new drug provision system makes it difficult for pharmaceutical companies and healthcare institutions to make accurate judgments about the potential consequences of its implementation. Nonetheless, given the importance of long-term planning and analysing trends in the healthcare system, we asked the participants in study for their thoughts about the potential impact of the new system on their activities.

Attitude of clinics

In answer to the question "What is your view of the initiative to introduce prescription drug insurance in Russia? Do you see opportunities or threats for private healthcare?" we received the following responses:

Attitude of HCOs to the prescription drug insurance initiative



27% of the respondents were unable to give an answer, and only 4% said that they saw a potential threat consisting in the following:

- ▶ Some patients may go back to state clinics if the latter were to issue prescriptions for subsidised medicines.
- ▶ Since prescription drug insurance would be financed by employers, this would have an impact on VMI budgets, thus indirectly affecting clinics that handle VMI patients.
- ▶ 27% of the respondents believe that prescription drug insurance is necessary, while 12% took a negative view of it.

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To create a good system of prescription drug insurance the government needs to take a more balanced approach to price control.

Representative of a clinic

¹¹ <https://pharmvestnik.ru/content/news/Veronika-Skvorcova-lekarstvennoe-strahovanie-samaya-progressivnaya-sistema.html>

¹² Appendix No. 11 "Departmental Structure of Federal Budget Expenditure for 2020 and the 2021 and 2022 Planning Period" to Federal Law No. 380-FZ "Concerning the Federal Budget for 2020 and the 2021 and 2022 Planning Period".

Expert comments

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It is essential to understand that prescription drug insurance mainly affects outpatient care, as in the inpatient sector payment takes place based on diagnosis-related groups. What drug provision means is that a clinic providing outpatient services that has been included in the system would be required to supply a prescribed drug to a patient, either free of charge or under a cost-sharing mechanism, on the basis of a prescription or on the basis of information received from a doctor via digital technologies. On receiving the prescription and supplying the medicine to the patient, the clinic or pharmacy would then receive reimbursement from the state. There are no risks for private healthcare from the introduction of such a system. Of course, if a particular healthcare organization did not want to join the system, it would risk losing those patients who would prefer to go to clinics that offer subsidized drug provision, but participation in the system would be voluntary. In terms of equality, the prescription drug insurance system would be open to all healthcare organizations.

Vitaly Omelyanovsky

General Director of the “Healthcare Evaluation and Quality Control Centre” federal institution of the Ministry of Healthcare of the Russian Federation

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We regard the initiative to introduce prescription drug insurance as a positive step, as it is a socially important project. It is too early to tell what impact it will have on VMI, but it is possible that voluntary prescription drug insurance programmes will gain in popularity.

Olga Suvorova

Deputy General Director
of RESO-Garantia PJSC

Creation of the unified digital network



Current developments

The federal project “for the creation of a digital network in healthcare based on the unified state health information system (USHIS)” is intended to cover 70,000 facilities. Under the project, all doctors at state medical facilities will be equipped with computers linked to health information systems and integrated electronic patient cards will be introduced by 2021, and nationwide telemedicine services will be launched by 2022.

As part of the “Healthcare development” state programme, over RUB 45 billion is to be allocated in 2020 to the federal project for the creation of the unified digital network (UDN) based on the unified state health information system (USHIS). A further sum of almost RUB 40 billion will be made available as subsidies for the implementation of regional projects for the creation of the unified digital network. In 2021, RUB 13.44 billion will be provided for the federal digital network and RUB 11.2 billion for the connection of regions to that network, while in 2022 RUB 14.35 billion will be allocated to the federal UDN project. The total budget of the federal project “for the creation of a digital network in healthcare based on the unified state health information system (USHIS)”

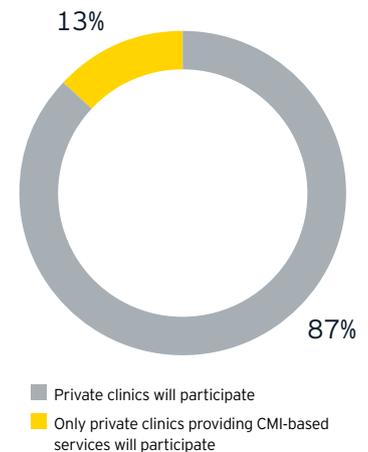
as part of the state healthcare programme up to 2024 is RUB 177.7 billion.¹³ By then, it is aimed that the proportion of healthcare organizations in the state and municipal healthcare systems that provide individuals with access to electronic medical documents through “My health” online accounts on the State Services Portal will have been raised to 100%.

As from 1 January 2020, privately owned healthcare organizations are obliged to enter data on medical care provided in the appropriate regional information system in digital form.¹⁴ This is due to the introduction of an information system based on categories of medical care.¹⁵ To improve information exchange between private and state systems for the recording of all details of medical care provided to individuals by private healthcare organizations, they need to be connected to the unified digital network. The regulators are also considering making connection to the unified digital network one of the licensing requirements for healthcare organizations.

Participation of commercial healthcare

Out of the 62% of participants who commented on this issue, 87% said that all players on the commercial healthcare market would be involved in the creation of the unified digital network, while 13% said that the initiative would only affect private clinics operating in the CMI system.

Will commercial clinics participate in the creation of the unified digital network?*



* Calculations are based on data supplied by 62% of companies

Nearly a third of those clinics that gave comments said that they would have to participate. At the same time, 19% believe that private healthcare should take a leading role in this initiative.

¹³ <https://pharmvestnik.ru/content/news/Minzdrav-predlozil-biznesu-podkluchitsya-k-cifrovizacii-otrasli.html>

¹⁴ <https://medvestnik.ru/content/news/Sozdateli-edinogo-cifrovogo-kontura-v-zdravoohraneni-poluchat-v-2020-godu-rekordnyi-obem-sredstv.html>

¹⁵ <https://medvestnik.ru/content/news/Vkluchenie-kliniki-v-edinyi-cifrovoi-kontur-voidet-v-usloviya-licenzirovaniya.html>

Expert comment

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It would be more appropriate for commercial healthcare to lead the creation of the digital network, because we have a good understanding of patients' needs and take them into consideration.

Representative of a clinic

Role of private clinics in the creation of the unified digital network (if they participate)

Private clinics will have to participate

31%

Private clinics should be leaders in this process

19%

However, the study participants express concerns about a number of issues related to this initiative:

- ▶ Investments by clinics on ensuring compliance with legislative requirements will ultimately have an effect on pricing, making commercial healthcare more expensive for patients.
- ▶ The initiative will create an additional channel for the transfer of personal data, giving rise to an additional security threat.

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In creating the unified information network, the state plans to establish specific requirements regarding data uploaded to the unified system. It will not be personalized data relating to specific patients, but summarized data on medical care provided. Private organizations will not have to change their information systems for this purpose; they will only need to adjust their automatic upload processes in line with specific forms and requirements. This is an essential condition for all private and state healthcare institutions, because the healthcare system is responsible not only for the individual patient receiving medical care, but also for what happens in terms of the morbidity rate and the treatment of the population as a whole. This is why it is important to have unified rules and a unified database so as to generate a picture of what care patients are receiving and where and how the continuity of treatment is ensured. As far as the timeframe is concerned, I think there will be trial launches first, and the information system in its entirety will come online in about three years or just under.

Vitaly Omelyanovsky

General Director of the “Healthcare Evaluation and Quality Control Centre” federal institution of the Ministry of Healthcare of the Russian Federation

The “Healthcare” national project

About the project

The “Healthcare” national project¹⁶ is one of 12 national projects approved under President Putin’s edict of 7 May 2018. The project is a continuation of the major national project of the same name which launched in 2016. It includes a total of eight subsections (federal projects): “Development of the primary healthcare system”, “Action on cardiovascular diseases”, “Action on oncological diseases”, “Development of children’s healthcare, including the creation of modern infrastructure for providing medical care to children”, “Provision of healthcare organizations with qualified personnel”, “Development of a network of national medical research centres and implementation of innovative medical technologies”, “Creation of a unified digital network in healthcare based on the unified state healthcare information system (USHIS)” and “Development of the exportation of healthcare services”.

The project charter was approved on 3 September 2018 by the presidium of the Presidential Council for Strategic Development and National Projects, and implementation began on 1 January 2019. The total project period is five years. The curator of the national project is Vice-Premier Tatyana Golikova, while the person directly in charge is the health minister, Veronika Skvortsova.

It includes nine targets:

- ▶ reducing the mortality rate in the able-bodied population from 455 deaths per 100,000 in 2018 to 350 in 2024

- ▶ reducing the mortality rate from circulatory diseases from 565 deaths per 100,000 in 2018 to 450 in 2024
- ▶ reducing the mortality rate from neoplasms, including malignant neoplasms, from 199.9 deaths per 100,000 to 185 in 2024
- ▶ reducing the infant mortality rate from 5.5 deaths per 1,000 births to 4.5 in 2024
- ▶ increasing the level of preventive health check provision to all citizens from 39.7% in 2018 to 70% in 2024
- ▶ increasing the frequency of preventive health check provision to all citizens to at least once a year
- ▶ ensuring the optimal accessibility to the public (including inhabitants of remote areas) of healthcare organizations providing primary care
- ▶ optimizing the work of healthcare organizations providing primary care, reducing waiting times for appointments at such organizations and simplifying appointment booking procedures
- ▶ increasing exports of healthcare services at least fourfold compared with 2017 (to USD 1 billion per year)

The project also involves completing the network of national medical research centres (it will comprise at least 27 centres by 2024); setting up a network of outpatient centres in all regions to enable diagnostic procedures to be carried out quickly and conveniently; training at least 10,000 doctors in the “midwifery and gynaecology”, “neonatology” and “anaesthesiology and critical care”

specialties (in 2019-2024); introducing across-the-board healthcare specialist accreditation procedures (by 2024); enabling people to make appointments, find information on healthcare services and access electronic health records through their “My health” account on the State Services Portal.

It is planned that, by 2021, every town in Russia with a population of over 100,000, without exception, will have healthcare organizations providing primary medical care. In addition, exports of healthcare organization will grow fourfold from USD 250 million to USD 1 billion.

A total of RUB 1 trillion 725.8 billion is expected to be spent on the “Healthcare” national project in the period 2019-2024, of which RUB 969 billion will go on the federal project to combat cancers. Of the total amount allocated to the project, RUB 1 trillion 366.7 billion will come from the federal budget, RUB 265 billion from regional budgets, RUB 94 billion from state non-budgetary funds and RUB 100 million from non-budgetary sources.

¹⁶ <https://tass.ru/info/6101618/>

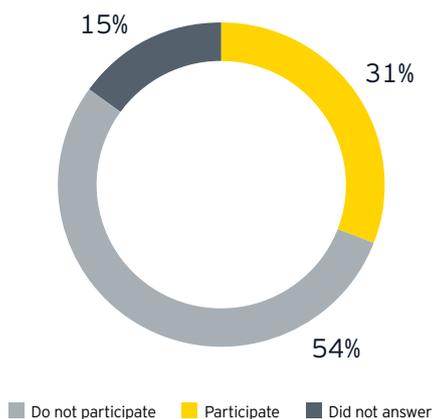
¹⁷ <http://static.government.ru/media/files/TVIdAva2IHGtqxvRQAQlzABZ2dAna23R.pdf>

Expert comment

Participation of clinics

31% of the respondents answered in the affirmative to the question of whether they would participate in the “Healthcare” national project, while 54% declared the opposite, including 14% who said that they were not allowed to take part in it. 15% declined to give an answer.

Does your company participate in the national project?



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The “Healthcare” national project does not provide for any special role or format of participation for private institutions not included in the CMI system. Healthcare organizations involved in CMI have to meet the same rules as everyone else. In other words, if private clinics at regional level are involved in the patient routing system for the treatment of a particular health problem and meet state requirements for healthcare provision, they will participate in the national project on the same level as state institutions and receive money for it through CMI financing.

Vitaly Omelyanovsky

General Director of the “Healthcare Evaluation and Quality Control Centre” federal institution of the Ministry of Healthcare of the Russian Federation

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There should be a closer relationship between the state and private medicine. We are prepared to participate in the national project if it is economically worthwhile and it becomes possible for all required standards to be met without compromising on the quality of medical care.

Representative of a clinic

Profile of participants and research methods



Selection of study participants

Selection of study participants

Like last time, we based our selection of healthcare organizations for the survey on the ranking of the largest private multidisciplinary clinics in Russia compiled by the Vademecum journal.¹⁸ 80% of the participants in the study are among the top 50 organizations in that ranking.

Almost a quarter of the respondents represent clinics that took part in both of our previous surveys (2015 and 2017).

All participants in the study are multidisciplinary healthcare organizations.

Geography of operation

For analysis purposes the surveyed healthcare companies were divided into the following groups in geographical terms:

- ▶ HCOs operating only in the federal cities, i.e. Moscow and St Petersburg
- ▶ HCOs operating in the federal cities and in the regions
- ▶ HCOs operating only in the regions

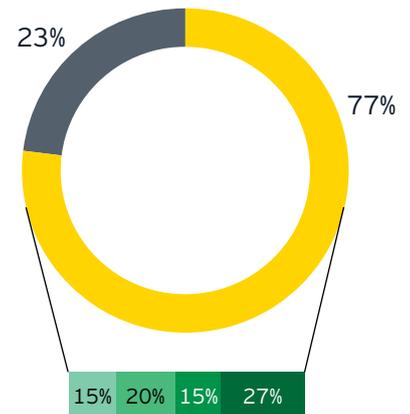
Most of the regional clinics are concentrated in the Volga, Siberian and North-Western federal districts.

Nearly 60% of clinics participating in the study for the first time are multidisciplinary HCOs operating in the federal cities. A further 19% of the new participants are regional clinics, while the remainder operate both in the federal cities and in the regions.

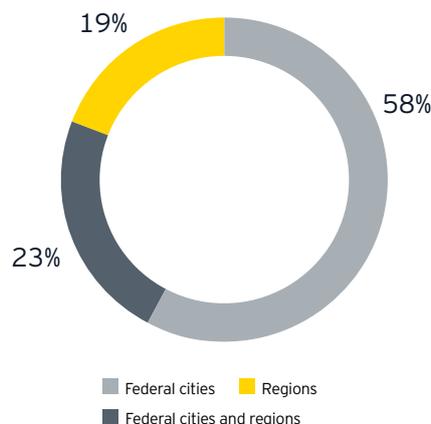
Operating format

Three quarters of the surveyed private HCOs operate as a network of clinics located in one or more Russian cities. 83% of non-network companies are based in Moscow.

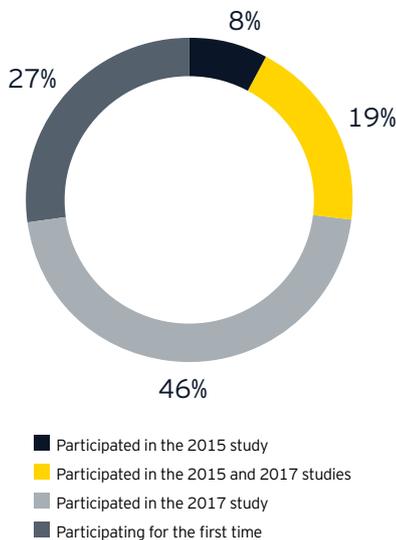
Distribution of participants by business format



Geography of operation of participants in the study



Coverage of participants in previous studies



¹⁸ Рейтинг журнала Vademecum «ТОП100 частных многопрофильных клиник России» №9, 2019 год.

Revenue

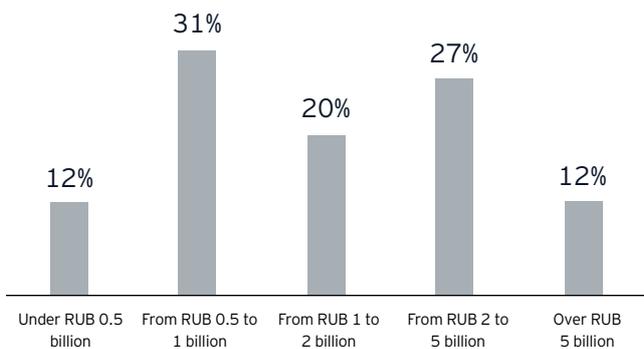
In selecting companies to take part in the study we focused on the largest market players. The aggregate revenue of the healthcare organizations surveyed in 2018 amounted to RUB 69 billion, which equates to 11% of the legal commercial healthcare market (including the VMI market).¹⁹

Survey format and observations

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

To enable us to analyse the business performance of the HCOs, as in the last study we asked the participants to complete an additional questionnaire reflecting key financial and operating indicators. It should be noted that the quality and scope of data provided for the present study were less comprehensive than in the 2017 survey.

Distribution of participants by revenue in 2018



In the last study we classed clinics as belonging to the premium, business and mass price segments for analysis purposes. We used a number of criteria to do this, but the key criterion was the average bill amount reported by the respondents.

In the current study, only 58% of the respondents provided information on the average bill amount, which is not sufficient for us to classify the participants by price segment.



¹⁹ "Analysis of the Healthcare Services Market in 2014-2018", *BusinesStat*

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