

# Healthcare spending: addressing the big issue?

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## The widening gap between healthcare resources and healthcare costs, and the role of financing to enable potential solutions

- Healthcare systems around the world are in need of reform if they are to remain affordable into the future
- The analysis in this research note shows medical costs are rising faster than Gross Domestic Product (GDP)
- This demonstrates that the cost of healthcare is escalating beyond the means to pay for treatment and care
- New ways of working – often based on modern technology – are making treatment more efficient, or indeed reducing the demand for healthcare through preventative and/or early diagnosis initiatives
- However, these initiatives have to be paid for, and most healthcare systems are struggling with operational budget issues, never mind capital purchasing resources
- Specialist financing for healthcare technology investment is playing a key role to bridge the growing gap between resources and demand



The time is ticking on climate, the time is ticking on demographics, and on sustainability in economic terms. We are talking about very sophisticated [health] systems ... now we need to somehow make them sustainable."<sup>11</sup>

**Director General for Health and Food Safety at the European Commission**

# Healthcare models **changing to combat spiralling costs**

Current models of healthcare delivery are increasingly considered 'not fit for the future'.<sup>1</sup>

Symptomatic treatment models are moving towards preventative healthcare policies and services. Global staff shortages are driving automation of 'commodity tasks' so that healthcare professionals can deploy their expertise more effectively. Changing patterns of demand require a pivoting of services and resources.

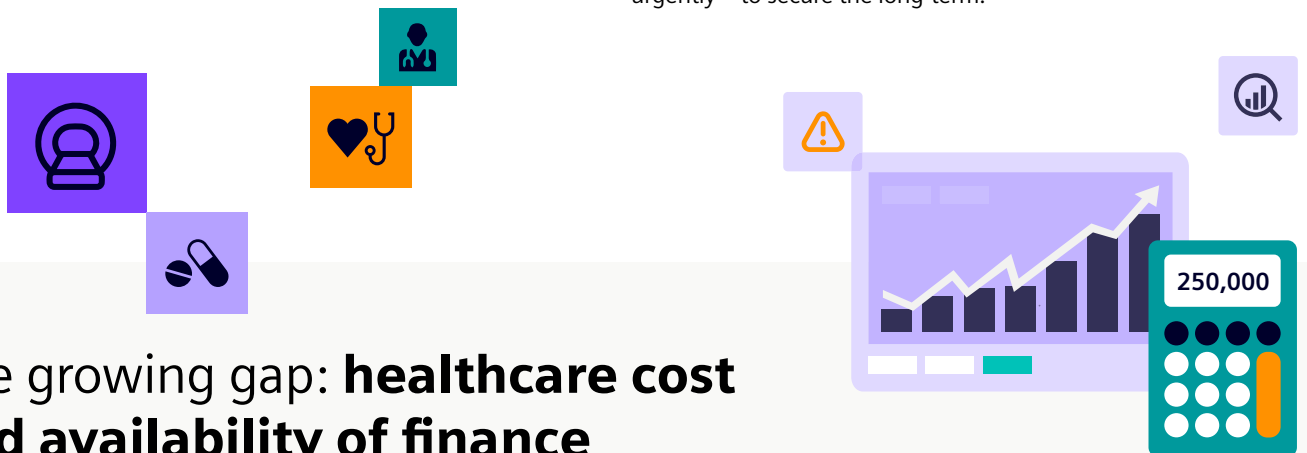
Everywhere, health professionals are seeking to harness new ways of working and modern technologies to deliver better patient outcomes at lower cost.

This last point is key. Healthcare costs are escalating around the world. Current practices are unsustainable and create pressure for healthcare delivery models to change. Take the example of the U.S., as health policy commentator KFF notes, "Health care costs in the United States have generally grown faster than inflation... Elevated health care expenditure in the U.S., however, does not consistently translate into superior health outcomes."

Different factors affect different healthcare systems across the globe: subsidized healthcare for low income citizens; growth in prescription drug spending;<sup>2</sup> the advent of new but expensive treatments, such as biologics and gene therapies;<sup>3</sup> shortage of healthcare professionals;<sup>4</sup> loss of confidence in state provision;<sup>5</sup> re-imburement rates lagging behind inflation;<sup>7</sup> the long tail of COVID spending;<sup>7</sup> soaring out of pocket medical rates;<sup>8</sup> and cyber threats to the healthcare sector.<sup>9</sup>

Accelerants of healthcare spending felt in common by **all** healthcare systems include an aging population, rising rates of chronic conditions, advancements in medicine and new technologies, staff shortages, regulatory and sustainability requirements, inflated energy costs, generally higher prices, and expansions of health insurance coverage.<sup>10</sup>

The cumulative legacy of those factors has to be managed urgently – to secure the long-term.



## The growing gap: **healthcare cost and availability of finance**

In order to illustrate the growing gap between the cost of healthcare and available financial resources, Siemens Financial Services (SFS) conducted analysis to calibrate the gap between costs and capabilities.

The graph below illustrates that throughout the world, healthcare delivery costs have grown over the last eight years, significantly in excess of the development of Gross Domestic Product (a key indicator of a country's resources to pay for healthcare). In addition, the pace of this cost growth has accelerated considerably beyond inflation.

The stark conclusion from these figures has to be that healthcare services are becoming increasingly unaffordable for nations around the world, that the affordability gap is widening, and that reform is urgently required.

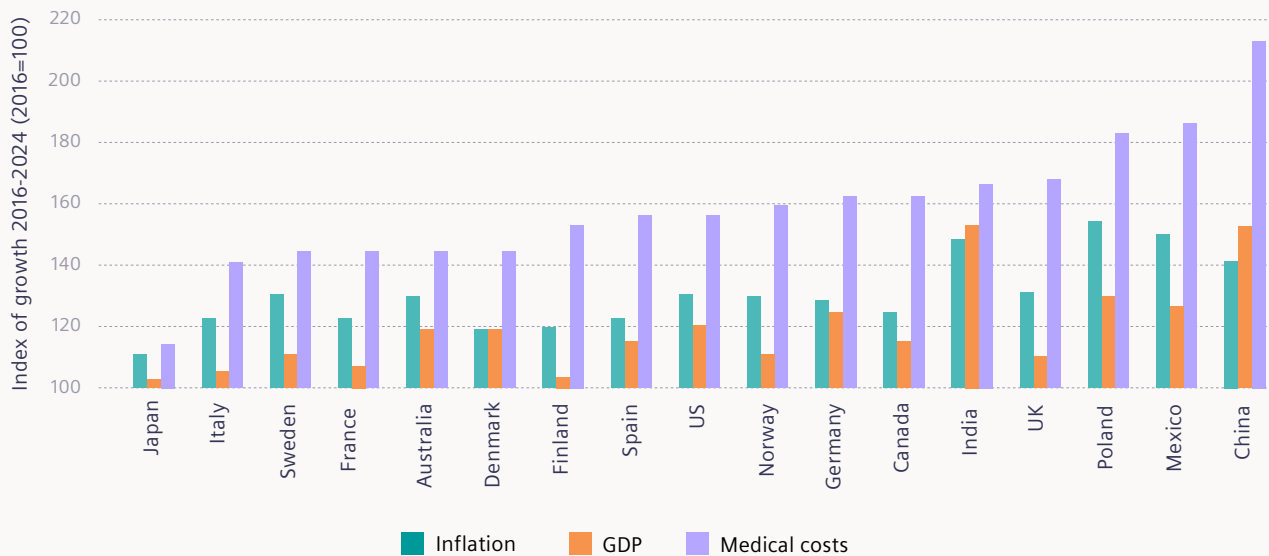


### Methodology:

To illustrate the widening gap between healthcare costs and healthcare resources, Siemens Financial Services (SFS) created an index of healthcare spending to compare with indices of inflation and GDP.

GDP is an indicator of resources available for healthcare spending, whether for state/ taxation-derived healthcare systems or those structured on health insurance policies. Index comparisons cover the eight-year period 2016-2024.

## Rising medical costs vs GDP & inflation (\$ billion)



Sources: OECD; National Departments of Health; Willis Towers Watson; AON; Mercer Marsh; National Statistical Institutes

## Finance is the great enabler

A major factor in positively reforming healthcare provision around the world is widely seen to be technology based. As McKinsey notes, Digital and AI investments provide health systems with opportunities to address the many challenges they face.<sup>13</sup>

Transformative technology fits into two main categories.



### Medtech

First there is medtech itself, where the digitalization of medical equipment enables, for instance: radiology efficiencies; joined-up patient record access and management; remote consultation, diagnostics or even surgery; and early preventative initiatives.



### Smart hospital

Secondly, the rise of the 'smart hospital' is making a radically positive contribution to the effective delivery of healthcare. Hospital workflows are optimized to deploy clinicians and care staff more effectively. Waste is eliminated from in-house pharmacy.

Patient flows are made both more efficient and more effective. Recovery periods are shortened through better patient environmental management. At the same time, energy consumption and costs can be minimized through sensor-based smart building management.

Nevertheless, conversion and transformation come at a price. Which is where the power of financial services comes into play. Healthcare systems want as much of their annual budgeting available for immediate patient services. They do not want (and often cannot afford) to tie up or 'freeze' funds in the capital cost of acquiring transformative technology, however powerful its business case.

Change requires investment capital. The very technologies that are being installed to increase efficiency and effectiveness in healthcare are also those which are form part of the cost of healthcare delivery in the short-term – virtue of their capital cost of acquisition.<sup>14</sup>

If the capital burden of new technology acquisition could be softened, and precious funds not tied up in depreciating equipment, then healthcare systems reform, improvement and efficiency could be achieved more quickly.

Financial efficiency is as important as technological efficiency. If former capital costs can be converted into operating costs (by harnessing third party capital), then healthcare organizations can transform without tying up their financial resources.

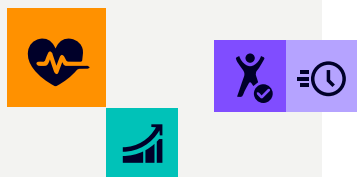
For instance, cost-saving energy-efficiency can be financed by harnessing future savings in a flexible financing structure. Existing equipment can be upgraded to superior performance standards through retrofit finance. Financing tools are enabling transformation and new ways of working.

Finally, many authorities are calling for a more strategic approach to technology-based healthcare reform. One example is the World Economic Forum who say, "Many nations invest in healthcare, but most have not presented a cohesive strategy to integrate physical and digital healthcare infrastructure."<sup>16</sup>



The convergence of technological advances with the existent, dire need for easily deployed diagnostics has created the current, critical moment, in which we can forever redefine how we care for the least among us.

**Journal of Clinical Virology**



To take just one example – medical imaging – various commentators are pointing out the strategic benefits of new-generation technologies and re-engineered workflows. A multi-study review in Europe notes, "Direct access to imaging for GPs can have many benefits for healthcare service delivery, patient care, and the wider healthcare ecosystem."<sup>17</sup> Portable and remote medical imaging is gaining much attention from the United States through to Asia, with a variety of studies emphasizing positive impact and improved access,<sup>18</sup> with new sales of some modalities showing Compound Annual Growth Rates (CAGR) in excess of 10%.<sup>19</sup> Similarly, a study published by the Journal of the American College of radiology points to the positive impact of Artificial Intelligence (AI) in assisting radiologists in diagnosing diseases more accurately and efficiently.<sup>20</sup>

As McKinsey concludes: "Successful health systems will invest in areas with the greatest potential impact while removing barriers – for example... by upgrading legacy infrastructure."<sup>21</sup>

## Where do the **investment priorities** lie?

A series of short papers from Siemens Financial Services - the SFS Healthcare Leaders Briefing Series – has gathered evidence on which priority areas of healthcare process reform are thought to deliver strongest return on investment and make the greatest contribution to stemming the growing tsunami of healthcare spending.

Each of these key improvement areas is also being fundamentally enabled through investment and deployment of modern technologies, such as digitalized systems and equipment, secure cloud environments, AI-enabled diagnostic imaging, laboratory automation, smart buildings and workflow management, and much more.

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For readers wishing to access these investment priority papers, they are published at

<https://www.siemens.com/global/en/products/financing/whitepapers/whitepaper-healthcare-transformation-finance-solutions.html>

# Healthcare leaders **briefing series**



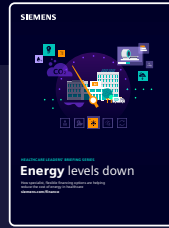
## **Power to the People**

How technology investment is addressing the issue of staff shortages and how that investment can be made



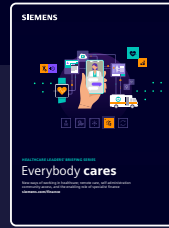
## **Cost Control**

The multiplicity of cost escalation and where modern technology, enabled by suitable finance, is upgrading to new capabilities and efficiencies



## **Energy Levels Down**

The critical gains from harnessing energy efficiency, radically reducing energy consumption & budgets, and the low-/no-capital techniques helping it happen at net-zero cost



## **Everybody Cares**

Remote patient protocols and self-care, enabled by new technology platforms acquired through efficient and cash-flow-friendly financing



## **Financing Circularity**

Adapting to the circular economy, reducing emissions and waste, whether in the built environment or in medical technology, supported by tailored financial options

## Specialist finance enables **technology investment**

We have noted the ironic situation where the very technologies that are being installed to increase efficiency and effectiveness in healthcare are also those which are contributing to the cost of healthcare delivery - because of their capital cost of acquisition.<sup>22</sup>

Many major global authorities attest to the increasing need for healthcare financing reform that can **alleviate the burden of that capital investment**, such as the WHO,<sup>23</sup> multi-country academic reviews<sup>24</sup> and the Centre for American Progress.<sup>25</sup> Others – in the U.S, Europe, India and China – point to the need to attract private sector finance into their health systems, even where they have traditionally been largely state-supported.<sup>26</sup>

Healthcare organizations are looking to acquire new generation technology and reap the resulting service efficiency, reduced operational and energy costs, personnel deployment and patient outcome benefits. To achieve this, many are turning to **specialist financiers** with the knowledge to tailor the most suitable financing structure for the organization's needs. Such specialists offer healthcare organisations the following financing types.

Subscribe to the **SFS Healthcare Leaders Briefing Series** for more on the priority investment areas for transformative healthcare, along with the financing techniques that enable transformative investment.



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