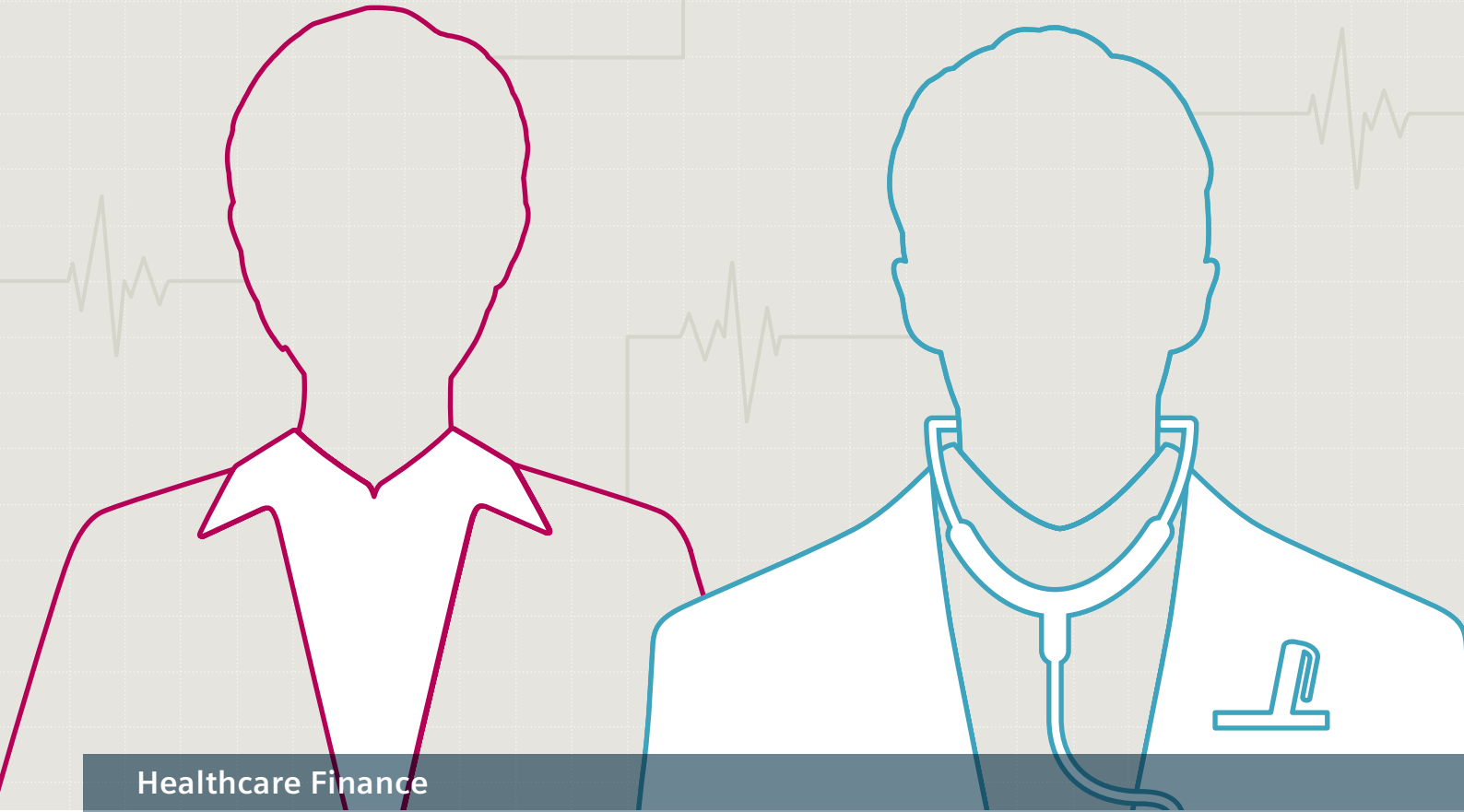


**SIEMENS**



Healthcare Finance

# Champions of Change

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# Management Summary

Across the world, pioneering finance managers in the healthcare sector are meeting their sector's key challenges with smart finance.

Generalist financiers don't understand our sector, so it's difficult to negotiate a deal that makes sense for us

Qualitative research conducted across 13 countries has highlighted four key healthcare sector challenges, as well as the ways pioneering finance managers are enabling solutions to those challenges.

Overall, healthcare institutions are using smart finance to improve planning, acquire state-of-the-art technology and manage cost-per-outcome, in order to offer a quality of care and service to patients that enhances the organization's reputation, attracts more patients, deploys clinical services more efficiently and effectively, adapts seamlessly to market changes, and ensures regulatory compliance.

Increasingly, healthcare finance managers are looking to specialist financiers whose in-depth knowledge of medical technology, the healthcare market, and best practice in technology implementation allow them to offer flexible financing arrangements that meet their individual needs.

The first challenge is **"managing investment in a capital-constrained environment"** underpinned by sustainable financial management. Healthcare organizations face the threat of under-investment in resources, less predictable investment planning, and extended use of outdated equipment, leading to the threat of sub-par patient services, care and outcomes.

Our reliance on out-of-date technology is undermining patient service quality

Pioneering finance managers are diversifying their range of financing techniques in order to find smart ways of acquiring more productive, cutting-edge medical technology in order to improve clinical service and care quality and capabilities, enhance service deployment and productivity, build their organization's reputation for excellence and attract more patients.

Respondents highlighted leasing, rental and cost-per-use techniques as particularly useful enablers, improving cash flow, and widening the pool of available finance – made available through non-bureaucratic processes.

The second key challenge is **"adapting to market forces"** – in particular, rapidly changing patient requirements and service provision, as well as the increasing competitive forces between healthcare providers increasingly pursuing strategies of "industrialized" centers of excellence, consolidating for scale, and whose health management duties are starting to be measured as much on prevention as on cure.

We're losing patients to other healthcare organizations because we can't invest in technology and services

New models are being developed by pioneering finance managers that work back from patient outcomes to construct smart financing strategies.

Top enablers are financing techniques that allow agile reaction to market changes, embrace the total operating costs of technology and facilities, underpin reliable planning, match an organization's cash flow requirements, and free up precious capital so that budgets can work as hard as possible.

The third main challenge for healthcare institutions is accessing the **"digital innovation and technological transformation"** that enables many quality and productivity improvements in the healthcare environment.

These improvements include: mobile treatment units; high resolution diagnostics for early detection and better patient stratification; digitized patient information management; point of care therapies; surgical robotics; and many more.

Financial management pioneers are actively diversifying their suite of financing tools to make technology acquisition affordable and accessible, covering total cost of technology ownership to ensure reliable financial planning, and also incorporating smart financing techniques that enable unforeseen new technology acquisition or upgrades.

Finally, healthcare organizations across the world are facing the growing challenge (and increasing potential liabilities) of **"meeting regulation and compliance requirements."** These are mainly focused on a more holistic approach to health management, embracing preventative measures, extending access to healthcare, implementing stricter patient and healthcare worker safety standards, and ensuring the safety and efficacy of drugs and treatments.

Access to private sector finance is seen by respondents as critical to implementing agile financing techniques that help meet unexpected regulatory changes and step changes in the supporting technology.

The transparency and reliability of various forms of asset finance are seen by healthcare finance managers as essential to measuring return on investment, building robust business cases and reporting to high standards of financial accountability, probity and sustainability.

Medical technology advances – often various types of digitalization – are happening frequently, and if we don't invest in them, patients will go elsewhere

Increasingly strict regulation means we need to change our whole tech platform, but haven't the funds to do so

Our capital budgets are inadequate to meet increasing service demands

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# Introduction

The healthcare sector is undergoing fundamental change across the world. Increasing longevity is driving demand for the treatment of age-related conditions, such as cancer and dementia. Growing global wealth is encouraging lifestyle habits (such as high-fat/high-sugar diet and smoking) that have led to a significant increase in chronic conditions, such as diabetes. Yet while demand for healthcare services is increasing, and the availability of new treatments has also grown, there is also pressure to contain escalating costs.

Public-sector healthcare organizations are being asked to deliver better services with the same, or reduced, budgets. In the private sector, there is pressure to improve competitive position by investing in top-quality service and care provision, while at the same time maintaining or increasing returns to shareholders. Movements in governments across the globe toward efficiency and austerity have ironically gone hand in hand with efforts to extend equitable access to healthcare (from the Affordable Care Act in the USA, to China's official and rapid extension of rural healthcare infrastructure).

In order to identify the main challenges or obstacles faced by healthcare providers across the globe, Siemens Financial Services commissioned qualitative research among pioneering healthcare finance managers in thirteen countries. The research was also designed to investigate how healthcare finance managers are deploying a wide range of financing techniques to help combat these key obstacles.



Four main challenges, common to all countries studied, were pinpointed by research respondents (and these broadly align with number of other recent research reports<sup>1</sup> on the topic). The four main challenges are:



### 1. Managing investment in a capital-constrained environment

Many factors are increasing the burden of healthcare provision, including: new legislation, increasing patient demand, (leading to over-use or inappropriate use of services), and the state-sponsored expansion of healthcare access to all citizens. At the same time, there are pressures to not only contain costs, but also more clearly link diagnoses and treatments to successful health outcomes, and thereby much more transparently demonstrate and measure the value that healthcare services are providing. This is leading to the first signs of official measures where the proportion of 'well people' (shown through reduction in demand for acute services) will determine budgets and reimbursement levels.



### 3. Accessing digital innovation and technological transformation

A flood of technological advances are coming to market with the potential to transform the effectiveness and efficiency with which healthcare is delivered. Almost all of them involve some element of digitalization, ranging across digital records and information management, Wi-Fi-enabled portable medicine, more sensitive diagnostics and big data analytics that interrogate and interpret the raft of data that digitized systems and sensing devices are now delivering throughout the healthcare environment. It is widely attested that access to more advanced technology can lead to better patient outcomes – both short-term and whole-of-life. Better technology leads to more accurate (often earlier) diagnosis and more effective (less invasive) treatments, all of which reduce the cost of making the patient well. Early detection of pre-condition signs may also help prevent acute conditions from developing at all. As a result, healthcare institutions are becoming increasingly keen to find ways of acquiring these technologies to manage overall health outcomes and improve care quality while reducing the cost-per-procedure/outcome and the lifetime cost-per-patient.



### 2. Adapting to market forces

Fundamental change to national healthcare infrastructures is being driven by various market forces. In order to drive efficiencies and more coordinated patient management, many countries are experiencing consolidation of healthcare providers through a rising tide of mergers. Governments are playing an increasingly hands-on role scrutinizing healthcare provision to ensure the quality and value of patient outcomes, along with access to care. Patients themselves are becoming more engaged and vocal in demanding those standards. And finally, the supply of trained talent is failing to keep pace with growth, so healthcare organizations are having to compete harder to attract healthcare professionals.



### 4. Meeting regulation and compliance requirements

The regulatory environment is becoming more complex, especially around issues such as patient safety, health information security and drug safety/efficacy. All this drives the need for healthcare institutions to manage, measure and report their activities in a timely, clear, accurate and granular fashion. While performance reporting is not at the heart of this paper, employing financing techniques that help calculate the cost of each medical procedure, and therefore the cost of generating health and 'wellness' outcomes in the population, does fit into this category.

<sup>1</sup>See, for instance, Deloitte, 2015 global health care sector outlook

## Challenges

# 1. Managing investment in a capital-constrained environment



»Capital is getting more restrained due to rising salaries but stagnating funding. I expect it will become more difficult [to raise capital] in the coming years.«

Public Hospital, Germany

**P**ioneering healthcare finance managers universally report an inexorably intensifying pressure on capital budgets as they struggle to meet increasing healthcare service demands and improved patient outcomes, in the face of escalating healthcare operational costs and more stringent performance measures. This is leading them to diversify their sources of finance to better cope with the demands and challenges. Access to alternative financing solutions, increased budgetary control and predictability is reflected in a widespread desire for financing techniques where payments are predictable and agreed rates cannot be changed once put in place.

Specifically addressing the challenge of investment in up-to-date medical technology, respondents reported that cost constraints are impairing the ability to acquire the

most accurate or productive technology as the foundation for improved levels of patient care.

Moreover, budgetary constraints are extending their use of outdated equipment. As a result, healthcare finance managers noted that they risk losing patients to other organizations more capable of meeting increasing patient expectations for quality treatment.

Healthcare organizations are actively exploring means of escaping the constraints of this negative spiral.

»[Relying on capital budgets] makes it difficult to invest. The consequence is that very often we [have ended] up using a piece of equipment that is out of date.«

Public Hospital, France

»For us, we are facing very high costs of borrowing on standard loans. ... Expense and uncertainty over borrowing rates and terms presents us with real difficulties when it comes to keeping our technology up to date. But if we don't do so, we will lose patients to competing organizations in the region. In Russia, people are perfectly prepared to travel to get the best treatment. So any financing packages that offer flexible terms that really match our operating needs, along with stable reliable payment rates across the financing period, are hugely attractive and will become more so over the coming years.«

Private Hospital, Russia

»We've just been through a period of major volatility in the world economy [that] has made us work hard to access more stable financial arrangements that do not risk radical rate changes or the risk of foreclosure. That meant looking at rental finance, asset finance, pay-per-use, structured arrangements against future flows, and all sorts.«

Private Hospital, Spain

»Our Capex budget is very limited, so we will have to consider other financing techniques whether we like it or not.«

Public Hospital, France

»The lack of funding risks making price an ultimate determinant on the orientation of a hospital's activities and practices, a parameter that does not necessarily deliver the best healthcare outcomes for patients.«

Public Hospital, Norway

# 1. Managing investment in a capital-constrained environment



»[Asset finance is] a big plus as it's hassle-free and relatively nonbureaucratic. Banks ask for credit security and personal guarantees and in that sense asset finance is easier to obtain.«

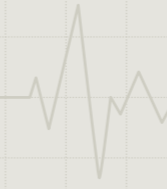
Private Hospital, India

Respondents all highlighted strategies for funding diversification to meet the investment challenges and facilitate the acquisition of more productive, cutting-edge medical technology, enabling them to attract and treat increased numbers of patients, and ultimately deliver better patient outcomes.

Respondents particularly cited leasing, rental and cost-per-use financing facilities as helpful facilitators in their quest to improve patient care. Finance managers noted the main financial advantages as:

- improved cash flow management and a relatively fast and nonbureaucratic financing process, to acquire technology demanded by clinical requirements
- the ability to access alternative sources of funding – in contrast with the slower and more complicated application processes (and the funding limitations) associated with traditional forms of financing
- in many cases, tax advantages

The proportion of healthcare technology acquisitions made using these nontraditional finance sources varied from respondent to respondent but, in some cases, were already well established with some respondents using, for example, alternative sources of asset finance for a significant proportion of their technology investments. In essence, pioneering finance managers are dynamically widening the range of financing techniques to realize the requirement for improved patient outcomes, enhanced competitive positioning, and smarter ways of coping with the demands of increased healthcare provision.



»If we went for general borrowing we would have much more issues than now, as they would be relying heavily on the performance of the organization ... so access to [non-standard borrowing] is relatively important because it's the only way we can go about doing necessary reinvestment.«

Private Hospital, Turkey

Non-profit Hospital, USA

»We use all sorts of financing techniques ... but asset finance always comes first ... it's good for cash flow.«

Public Hospital, China

»We are hardly using loans at all ... At the moment we are most likely to choose a leasing solution and that basically has to do with the cash flow, that's the most important aspect ... but actually we are using the leasing technique 99% of the time.«

»Rental, leasing and pay-per-use schemes were judged to have cash flow and tax advantages over traditional lines of credit and have now become the usual means of acquiring the use of imaging, surgical, cardiac, orthopedic and radiological equipment.«

Public Hospital, Russia

»Obtaining financing - it's not impossible, but it's harder than before. It's easier to acquire equipment through leasing, because the manufacturer supports the credit of their clients.«

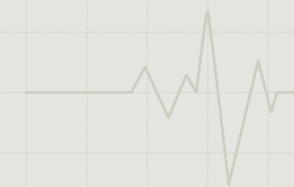
Private Hospital, France

»We do regularly use leasing and asset finance, for maybe as much as one third of our technology investments across all clinical departments ... With the current financial pressures this will probably rise over the next few years«

Public Hospital, UK

»The leasing agreement had a relatively short financing period, the interest rates were pretty good, deals were easily done and it helped keep us from liquidating long-term investments or acquiring longer-term debts.«

Private Hospital, USA



## Challenges

# 2. Adapting to market forces

»Efforts to devise a long-term technology investment plan are further hampered by volatility and change in patient service demands.«

Public Hospital, Norway



Perhaps the most widespread challenge facing healthcare institutions across the globe is an increased difficulty in planning capital budget requirements, caused by (a) more rapid cycle of change in patient requirements in recent years, and (b) the increasing competitive forces between healthcare institutions.

Conditions presented by patients are changing, medical technology solutions and treatments available are expanding, and patients are becoming more vocal in their clamor for healthcare excellence. Former planning models therefore are being reassessed. Pressure is mounting on healthcare organizations to compete for patients (at home and from abroad) through service excellence based on the best medical technology available. Hospital groups are reporting a need to ensure service consistency (and therefore technology consistency) across their hospitals.

Many noted a rise in consolidation among healthcare organizations in a bid for increased scale of operations, allowing them to build a business case for improved technology platforms that deliver enhanced service quality and operational efficiency. Rapid-growth healthcare groups report that they are approaching their ceiling for access to standard loan finance, and therefore need to access more diverse funding sources. Finally, many healthcare providers, in both private and public sectors, are positioning themselves as specialist centers of excellence building their technology base, their competitive position and their service reputation to attract more patients (and the funds that come with them).

»Medical tourism and the development of facilities abroad are at the core of our hospital group's strategies. We have established ourselves as reliable providers of a range of clinical specialisms, especially to people from the Middle East and neighboring parts of South Asia.«

Private Hospital, India

»We have been developing a chain of cancer centers throughout India. Two things happened: our growth rates started to soar; and the bank told us that we were approaching our borrowing limits and risk thresholds, despite the obvious good business we were winning. That's when we started to look at alternative sources of finance, particularly leasing/asset finance and managed services provision (say for our diagnostic suites), as a means to enable our growth.«

Private Hospital, India

»As a specialist service provider [of diagnostic imaging] in France, it is imperative for us to offer the highest quality imaging capabilities using the very latest equipment. That's why people come to us.«

Private Hospital, France

»What we can't afford is divergence between the technological capabilities of our hospitals ... we can't really sweat a piece of equipment in one hospital while another is offering the best-in-class. So that's where flexible financing arrangements, which recognize our value as a whole business ... become so important.«

Private Hospital, UK

»Vertical integration (or consolidation, depending how you look at it), as hospitals and primary care units start to merge, is providing bigger buying units which, ironically, will probably look at more acquisition of high technology devices, which their previous constituent parts could not previously afford or consider.«

Public Hospital, China

»What we find is that the need to invest in technology simply does not follow neat patterns of annual capital budgeting. Variations in patient demand and conditions presented can be quite volatile, and the sheer availability of treatments and technologies, as well as developing regulatory standards, mean we have to make investments that often come in concentrated bursts.«

Public Hospital, Germany

## 2. Adapting to market forces



»It's mostly to do with the opportunities it gives us to use our cash for other investments than equipment investments, so in that way it really increases our operational efficiency.«

Public Hospital, Sweden

Many pioneering healthcare respondents are developing new financing models to relieve the pain of escalating service demands combined with competitive pressures and capital limitations. Efforts are focused on operational efficiency, improved quality of diagnosis, clinical excellence and integrated, coordinated care. Scale effects (often through mergers) are being harnessed to enhance access to healthcare and position healthcare organizations as leaders in their field. Often, these new models start from desired patient outcomes and work back to build a business case and financing structure that meets those objectives. Flexible financing techniques are being used to enable agile reaction to change, and the ability to develop clinical specialisms that attract greater numbers of patients.

Much emphasis is being put on understanding and financing the total operating costs over time of medical technology, so that the resources needed to create healthy patients can be accurately calculated and planned, supported by the most appropriate financing tools. In short, pioneering finance managers are looking for financing techniques that allow their budgets to work as hard as possible, avoiding tying up their own precious funds in capital equipment investments.

They are sourcing flexible financing that supports their cash-flow requirements. A few illustrative examples include: comprehensive bundles of technology, service and even staffing; payment schedules that only commence when the technology is operational; multi-vendor arrangements; and umbrella agreements to embrace future technology acquisitions.

»Our orthopedics department is exploding ... adding five units in the last two years ... we were looking at a lot of new equipment. I decided to lease because the provider was also able to finance the provision of technicians for the early operating period while we secured permanent staff for the job. Now that certainly isn't a standard form of finance!«

Private Hospital, USA

»We do feel like pioneers in the ways we manage capital developments in our hospital ... we were able to approach capital finance with a completely white sheet. We threw out all our ... preconceptions and rebuilt our range of financing options, driving everything with a cost-to-use approach that meant we could properly manage our cost per treatment, or cost per diagnosis. It completely altered our mindset – away from capital write-down periods and other such old thinking.«

Private Hospital, Spain

»We were an early adopter of leasing and asset finance in our country. In our latest deal, we had developed a new orthopedic facility, in terms of the building and the specialized environment, but we still needed the equipment, and we did not have access to any more traditional capital. So we did an asset finance deal covering the full range of equipment (multiple manufacturers), installation, maintenance and service. The payments were arranged to start only when the installation was complete and we could put the unit into action (and begin getting revenue).«

Public Hospital, China

»Our hospital group has been established with the mission of maximizing accessibility and providing high quality care at lower costs. We adopt an evidence-based medical approach, which puts emphasis on accurate diagnosis to minimize the costs ... to mitigate unnecessary expensive invasive procedures. [Our financing model] bucks the trend of traditional cost management in healthcare around the world, making the starting point what the patient can afford, and then working back to develop procedures that meet this cost target ... so almost everything we acquire technology-wise is on some form of financing.«

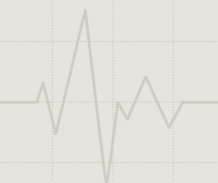
Private Hospital, India

»As an independent medical laboratory group of companies, we wanted to take advantage of relaxed rules on mergers and acquisitions in the sector to undergo rapid expansion. However, we also wanted to invest in a lab testing technology platform, across all group companies that could run several tests simultaneously. This would clearly add to client turnaround times – a huge competitive advantage – as well as allow us to cope with peak volumes at especially busy times. A bank loan could not be found where the terms fitted our preferred payment levels and period. So we ended up with an asset finance agreement, which is simple, comprehensive and has a fixed rate for the finance period, which is really useful for the reliability of our business planning.«

Private Medical Laboratory, France

»Asset finance allows us to be more flexible when opportunities come up.«

Private Hospital, USA



## Challenges

# 3. Accessing digital innovation and technological transformation



»Digitization initiatives – which in the healthcare environment involve things such as mobile technology, diagnostics, and information/records management technology – are really important for overall hospital efficiency and service quality. Our medical records system is a case in point. Duplications taking place in the old work processes and paperwork were a very damaging source of mistakes and a delay in the whole diagnostic process.«

Non-profit Hospital, Germany

The need to grasp technological advances, many of which are enabled through some form of digitalization, is widely recognized by respondents. Change has made this need more urgent – fueled by trends in healthcare consumption, accelerating advances in medical technology solutions, and growing competition between healthcare providers. It is also widely noted that patients themselves have become more vocal and demanding about access to technology in recent years, both in the public and private healthcare sectors. This has contributed to a consequent uplift in government, regulatory and industry standards. Many specifically note that the need to invest in new technology is both urgent and essential.

Respondents identified a number of specific technologies underpinning new ways of working, including: mobile treatment units; higher resolution diagnostics; patient information/records management; point-of-care testing; surgical robotics; and more. However, capital budgets with which to acquire digital innovation and technology transformation have not grown in line with increasing demands for healthcare services. This is exacerbated in established healthcare systems, where the preceding slow economic period has led to a pent up investment need, for which flexible and appropriate financing models are paramount to make those investments affordable and sustainable.

»The pace of change with all sorts of the more sophisticated end of medical equipment is phenomenal – many, many times faster than 10 years ago and continuing to accelerate – usually in the form of software or other digital upgrades. In this regard outright purchase makes no sense. Acquiring medical equipment on some sort of lease structure delivers fixed costs, guaranteed availability, and properly planned replacement.«

Public Hospital, Turkey

»In the austerity atmosphere after 2008, investment in new [technology] in our hospital group was suppressed. ... Now, however, things have reached a point where we think any further investment delay may undermine the level of service which patients receive for us to fulfill our duties properly.«

Private Hospital, Russia

»Going mobile [a technology area fundamentally enabled by digitalization advances] is a real issue within our hospital group. The rapidly changing demographic dynamic of the catchment we mainly serve has been very volatile over the last decade, exacerbated by migrant influx and the arrival of many retirees across the period. That has meant that every few years we have found the distribution of demand for various medical services, from dialysis to diagnostics to diabetes, has radically changed. So we have now adopted a policy to invest in mobile technology units, so we can change service location more flexibly.«

Private Hospital, USA

»Naturally, patients expect (and pay for) top-class procedures based on the latest technologies – so we have had to look around to find effective methods of financing that technology.«

Private Hospital, India

» Investing in new technology is important for process changes and sometimes you can't postpone the investment.«

Private Hospital, Spain



# 3. Accessing digital innovation and technological transformation



»[In] diagnostics ... [financing] arrangements are reducing radiation exposure considerably. If we stuck to our squeezed capital spending budgets, we simply couldn't bring as good a service to our patients ... and these financing options allow us to manage our budgets more responsibly and accurately and clearly.«

Public Hospital, UK

Respondents report that they have diversified their funding sources, particularly into asset finance, rental, leasing and forms of cost-per-use. These asset finance techniques are perceived by healthcare finance pioneers to bring a number of specific advantages, including:

- making innovative technology accessible and affordable
- the capability to bundle total costs of ownership (maintenance, software, services)
- the resulting financial transparency that makes financial planning more reliable and helps build compelling business cases for tech investment
- the possibility to add in new technology acquisitions without necessarily having to negotiate a new financing plan
- the medium- to long-term flexibility to upgrade when future medical technology advances come to market

Ultimately financing plays a key role – enabling transparent reporting and accurate attribution of costs – in the bid to gain a reliable view of cost-per-patient outcome. This is seen as fundamental to delivering consistent high-quality patient services.

Financing techniques that allow more flexibility in dealing with rapid changes in patient service demand are particularly valued. More broadly, pioneering healthcare finance managers across the globe have shifted their mindset on technology acquisition, from the old world of cost management to a more sophisticated vision that uses smart financing to play a critical part in the assessment, delivery and measurement of healthcare value.

»Asset finance ... allows us to much more reliably plan our growth strategies.«

Private Hospital, Turkey

»By exploring alternative financing techniques (other than buying technology) we have found that you can often offer better, higher quality, patient services than might at first have appeared. This is especially important when it comes to high-end systems – such as very detailed diagnostics, or institution-wide healthcare informatics, or surgical robotics.«

Public Hospital, Sweden

»Since our financing arrangement [to acquire a Wi-Fi-enabled mobile diagnostics fleet] has been put in place, we have realized this kind of pay-to-use arrangement also offers us greater flexibility ... to add and/or remove technological capabilities as the needs of the patient community change – far more so than if we had bought the equipment.«

Private Hospital, USA

»Financing techniques that allow spread payments over a period that reflects the rate of benefits gained from the technology (patient throughput, patient outcome improvements, reduced cost-per-procedure) are all of huge interest to us.«

Private Hospital, Russia

»Basically anything that has a high potential savings impact is where asset finance plays the most crucial role. I would highlight diagnostic accuracy and surgical automation. Together, they have the greatest impact on reducing invasive procedures. The more precise the diagnostic picture of what's wrong with the patient, the greater the chance to minimize physical intervention.«

Public Hospital, UK

»[For medical] technology ... updates and shifts happen every three to six years ... and you don't know when a significant technical advance is going to appear on the market ... so it's much better to acquire this equipment on a sort of financing plan, which allows you to pay to use the equipment over a certain period, but offers the flexibility to shift your technology ...«

Public Hospital, Turkey

»[For us,] technologies such as diagnostics, surgical robotics and so on, have to be the very best available – our reputation relies on this – so we tend to acquire the best through some form of asset finance, with periods and terms adjusted to suit our operating model. A key factor of our success has been our »capital efficiency model.«

Private Hospital, Poland

»More financial managers and clinicians should be focusing on this type of measurement of lifetime costs of technology, rather than obsessing on the purchase price alone.«

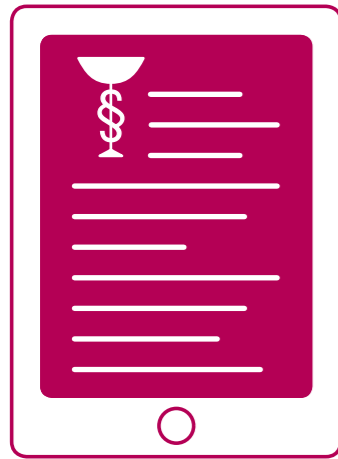
Private Hospital, Russia

»We needed to digitize thousands of paper patient files and cope with an explosion of new medical images. For flexibility in the light of uncertain demand, we decided to lease the solution rather than buy it outright. What we found was that the data volumes are constantly growing ... so when we need extra servers or storage, I don't have to keep going back to the board with individual plans and proposals.«

Private Hospital, France

## Challenges

# 4. Meeting regulation and compliance requirements



»Infection control is somewhere where we are having to rapidly ramp-up our rapid testing facilities. This involves a wholesale change to microbial testing to get more rapid results – moving from a day's turnaround to just a few hours.«

Public Hospital, UK

**R**egulatory standards are inexorably increasing across the world, whether in terms of extending access to healthcare, or monitoring and enforcing patient and healthcare worker safety standards, or closely monitoring the efficacy and safety of drugs and treatments. In rapid-growth healthcare infrastructures that are regulated (but also sponsored) by state authorities, healthcare finance pioneers are concerned with investing in key technology in a way that is financially responsible, sustainable and transparent, while also meeting all compliance requirements. In all countries studied, respondents reported the key challenge of uncertainty about future funding and/or reimbursement rates.

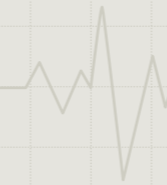
Respondents reported that regulatory pressures usually present the additional challenge of instituting wholesale change in their organizations, which often translates into systemic technology investments. Particular examples of major compliance pressures cited by respondents include combating healthcare-acquired infections, digitizing patient records and meeting international benchmark standards for access to technologies such as diagnostic imaging. Traditional capital budgeting is seen as inadequate to finance such step change, emphasizing the importance of harnessing a diversified range of financing techniques to optimize technology acquisition.

»Reform of the whole system of healthcare financing model is of great concern to us at the moment. For instance, a major line of revenue comes from mark-ups on prescribed pharmaceuticals and this is in the process of being reduced as an income source. Simply in response to this impending volatility for hospital finance managers, we don't really want to be committing any volumes of capital only then to find that we need access to funds that have been thus tied up.«

Public Hospital, China

»Imaging technology availability in France is still lower than in comparable European healthcare systems and so there is great encouragement – even pressure – to invest. But this is in the face of a certain volatility and/or uncertainty about reimbursement levels over the next few years. It's tricky to make sound investment plans on this basis. Access to great lumps of capital is simply not a reality.«

Public Hospital, France



»We are one of China's largest hospitals backed by non-state investors. No state money at all went into setting us up, but we now have the major task of running a viable service that embraces some subsidized state health services, but also for-profit health and clinical services. That means access to the latest technology and top clinicians to attract private customers. There's no way we can raise any more capital than we have already – so we are accessing private capital via asset financing arrangements to acquire and upgrade our technology.«

Public Hospital, China

»A lot of [our] growth is very positive and planned by the state health authorities – proper, carefully considered policies to increase access for the population to key diagnoses and treatments that are really undermining the health of the nation – from diabetes to cancer to gynecology ... The goal is indisputably admirable, yet the realization will call for substantial financial resources.«

Public Hospital, Turkey

»We wanted to move to an Electronic Health Record system where compliance is administered by the Centers for Medicare & Medicaid Services (CMS). We were also, so long as we could demonstrate compliance with the standard requirements, eligible for the EHR Incentive Program, which could give financial support for the project. Since this was essentially a once-and-done initiative, though a large project indeed, we wanted to fund it outside of either our relationship banks or bond issuance (usually devoted to new buildings), both of which were best applied to our normal operational and capital needs.«

Private Hospital, USA

# 4. Meeting regulation and compliance requirements



»Our hospital group's board made the strategic decision to explore all means of maintaining their reputation for excellence (exemplified by, for instance, accreditation to ISO standards 9002 and 14001). One element of this was to find smart financing plans to afford best-in-class [technology].«

Private Hospital, Russia

Pioneering healthcare finance managers regard access to private-sector finance as essential to managing the process and technological change that result from growing regulatory demands. Flexible and agile financing techniques are seen as critical to dealing with unexpected regulatory changes and sudden technology shifts that disrupt even the best-laid plans. Indeed, public sector healthcare bodies around the world are being actively encouraged by the state to seek sources of private-sector finance in order to achieve this level of flexibility.

A wide consensus of respondents noted how asset finance in particular helps increase transparency of financial reporting. They note that this makes it easier to attribute reliable costs to procedures, patients and, ultimately, the health outcomes by which regulators are increasingly measuring healthcare institutions.

More broadly, this transparency was also seen as delivering a sharper view of technology investments, enabling finance managers to measure payback and build business cases in ways that meet official standards for financial accountability and probity.

Access to key technology is seen as crucial to meeting the growing range of official targets and benchmarks. For organizations seeking to build their service reputation and attract more patients, achieving recognized quality standards is seen as important to competitive position – and best-in-class technology plays a key role in achieving such accreditation. This technology tends to be acquired with flexible, comprehensive, individually structured asset finance packages. In fact, many commentators see the use of a diverse range of financing tools, including various forms of asset finance, as encouraging a more strategic approach to technology acquisition. By embracing the total operating costs of new technology in a finance arrangement, it is easier for finance managers to calculate and demonstrate the value that technology delivers in terms of healthy patient outcomes.

»[To meet official targets for access to diagnostic imaging technology] ... if we can forge a financing agreement that matches our specific business circumstances – repayment period/terms/levels vs. likely reimbursement revenue cash flow – then we can look at building a relatively conservative and affordable investment plan. This becomes particularly interesting when a knowledgeable financier offers a scheme where payments only begin when the technology becomes operational and starts delivering revenues into us ...«

Public Hospital, France



»We tend to take an approach where we look at the cost of the equipment across its whole lifetime of service in the hospital, so we factor in downtime as equipment ages, and the greater need for preventative and unplanned maintenance. That approach often, although not always, shows that a rental or hire or leasing agreement provides better value [for patients and taxpayers] in the end ...«

Public Hospital, UK

»Since [our] EHR [electronic health records] system had to integrate with much of our internal clinical systems and equipment in order to ingest [regulatory] data (for instance, »Incorporate clinical lab-test results into EHR as structured data«), then we worked with our current equipment financier, who is expert in medical technology, to create a hybrid financing arrangement – part loan, part lease, with staggered repayment level triggers – to make it affordable for us and to match our cash flow.«

Private Hospital, USA

»Using financing tools to acquire at least a proportion of your medical technology also encourages a more strategic approach to asset management. Rather than waiting until the asset is dead and being forced into a rush decision, you are looking at replacing it well before, properly evaluating all options and costs.«

Public Hospital, UK

»Demand for our lab services has been increasing 4-5 percent each year recently. This growth, we believe, is driven mainly by aging patient populations and protocol-driven test volume increases to meet mandated goals for national health outcomes and preventive-care. If we hadn't used smart financing to acquire new capacity very quickly (at the point we needed it when demand passed key thresholds, but not before), we wouldn't have met these targets.«

Private Hospital, Russia

»Alternative financing is in its early stages here – representing just a few percent of all capital equipment financing, but that's changing rapidly. The national authorities are encouraging us to look for private-sector funding, and frankly, the way things are going and the pressures on us to keep expanding, we're simply not going to be able to do so without private capital. The favorite techniques are already being shown to be those that convert our outgoings into regular payments that can be paralleled against the payback we get on the equipment or unit – in other words so we can clearly see that we are earning what we are paying out – or indeed preferably more!«

Public Hospital, China

# Specialist healthcare financing – the benefits

Across the world, pioneering healthcare finance managers strongly agree that choosing the right financing partner can make a material difference in managing investments in a capital-constrained environment, adjusting to market forces, accessing digital innovation and meeting increasing regulatory requirements. Research respondents all pointed to the value that specialist financiers, who really understand the sector, bring.

## The value of specialist market knowledge.

By using a wider range of financing sources, we can invest in the wholesale change that patients, the market and regulators are demanding

Specialist funders tend to be better informed about medical technology, how it is applied, and what a healthcare organization is likely to achieve by acquiring and implementing innovative medical technology. With their in-depth market knowledge, specialist financiers understand the tangible benefit it will deliver to the healthcare organization, in terms of diagnosis and treatment productivity, competitive reputation, regulatory compliance and adaption to market forces. Using that understanding, tailored financing arrangements are developed and flexed so that they truly fit the organization's individual service delivery needs and cash flow requirements.

»It's also a matter of developing a relationship with nontraditional funders who will take a sympathetic and pragmatic view as your needs change. Recently, we wanted to re-engineer our imaging fleet, upgrading some equipment, replacing others, rationalizing two units into one, and so on. Our existing financier, with whom we already held a financing agreement for the old setup, was prepared to migrate matters to a new arrangement that folded in the cost of change into an extended five year agreement, all at an affordable increase in our overall monthly payments – an arrangement that we could comfortably manage.«

Not-for-profit Clinic, Germany

By working with specialist financiers who understand our sector and its practical realities, we can get financing packages that meet our real needs – be they pricing, payment terms and timing, or upgrade options

## Added-value insights.

Specialist finance providers use their deep understanding of technology, the market and practical applications to overlay their finance provision with important added value insights. This might, for instance, involve advice and insights about industry best practice, or international standards, and how they can affordably and effectively be implemented. Knowledge passed on by the financier about how counterparts across the globe are meeting key challenges in practice can be invaluable.

»Our hospital group is an ophthalmic specialist... We're growing fast but it's difficult to access enough capital to keep pace with our rate of expansion. Essentially, we have a master agreement with our financier and when we need to add to this arrangement... then we can within this overall agreement. Interestingly, the financier knows a great deal about our clinical area, and was able to also give us some added-value consultancy about international standards, which has helped us improve our standards accreditations and this has helped to further enhance our reputation with other medical centers and with the patient community.«

Ophthalmic Hospital, China

## Understanding organizational structures.

In the healthcare sector, there are significant interdependencies between institutions even when they are different legal entities. Specialist financiers are able to use their healthcare sector expertise to recognize these interrelated factors and influences when assessing a healthcare organization's expected success and payback from access to new technology. This can result in finance being offered by the specialist financier on terms or over a period that would not be available from generalist finance providers.

»The financier that won our business – to deliver a new technology solution for our cardiac facility – had the understanding to recognize our association with a series of other institutions when assessing our credit status. This meant that they felt able to offer more flexible and appropriate terms, and bundled the whole tech solution (which came from several providers), as well as opening the door to further equipment acquisition under the same arrangement. We have so far processed over €700 million through this financing facility.«

Private Hospital, Germany

By diversifying our sources of finance, we can now access sufficient capital funding to invest in innovative technology and deliver our desired service quality and productivity

Smart finance – asset finance in particular – allows us to finance the total operating costs of technology, so that we can accurately calculate the cost-per-treatment and cost-per-outcome

Specialized finance companies have the flexibility and expertise to put together intelligent financing plans that recognize what you're trying to achieve

With smart financing, we can get the technology we need to build our reputation for excellence and attract more patients

### Assessing technology impact.

Specialist financiers command superior knowledge of technology applications and their implementation in the healthcare environment. That in-depth understanding means they can assess payback far more reliably than a generalist, allowing them to create viable structures and pricing for the financed party. For example, such knowledge is crucial in allowing them to offer financing arrangements that, for example: bundle multi-vendor technologies into the solution the organization really requires; flex financing periods to fit an organization's cash flow needs; offer upgrade options mid-term; and be prepared to finance rapid growth plans.

»What we find is that the need to invest in technology simply does not follow neat patterns of annual capital budgeting. Variations in patient demand and conditions presented can be quite volatile, and the sheer availability of treatments and technologies, as well as developing regulatory standards, mean we have to make investments that often come in concentrated bursts. We ... usually get the best deals – looking at total costs over the lifetime of the equipment – from the more specialized finance companies that have the flexibility and expertise to put together intelligent financing plans that recognize what you're trying to achieve.«

Public Hospital, Norway

Access to smart private-sector financing has removed all barriers to our growth

### Commitment to the healthcare market.

Financing partners that are the arm of a medical technology provider are seen as trusted, committed, long-term healthcare financing partners. They are highly connected to the medical technology market, technology development paths and future healthcare consumption trends. Their strategic alignment with the fortunes of the market makes them committed to consistently supporting healthcare organizations, rather than dipping in and out of the market as economic circumstances fluctuate.

»We specifically look for financing partners where there is a common interest. As we say here, »Bir elin nesi var, iki elin sesi var« (two hands are needed to make a sound). So if the financier is the arm of a technology provider (whether or not they provide all our technology or just some), then we're pretty keen because our growth is strategically aligned to theirs in a way that the general finance provider ... is not – they are only interested in what is big at the moment and will switch their focus with the market – whereas a funder with aligned interests will tend to stick with you more consistently.«

Public Hospital, Turkey

Using a range of asset financing techniques, we can cover the total cost of ownership on key medical technology, enabling reliable financial planning



### Ease and flexibility.

The final key benefit of partnering with a specialist financier is the ease, speed of service and flexibility they can provide, both to the financed organization, and to technology providers themselves. Specialist finance providers have developed sophisticated, streamlined financing processes that accurately assess the key points of a financing proposition and deliver choice, structures and pricing that make operating sense to a healthcare organization. Financing packages from a specialist will usually not require deposits or personal guarantees typically associated with traditional loans. Finally, the fact that specialist financiers "speak the language of healthcare" makes the process of creating appropriate financing packages easier and more effective.

Flexible financing allows us to adapt sustainably to the unexpected – be they technology step change or new regulatory standards

»Speed is often an issue when trying to finance new or upgraded medical technology. If you're dealing with a generalist financier, it can take ages because they don't really understand how the technology will contribute – or they have to find a handful of experts to tell them that it's a good idea. If you can find a funder that understands the technology and how it works within your organization, then they are usually much quicker to return a funding decision.«

Private Hospital, Russia

# Champions of Change

Qualitative research among pioneering healthcare finance managers identifies how healthcare providers across the globe are enabling essential technology investment to improve service provision and patient outcomes.



**Challenge**  
... managing investment in a capital-constrained environment?

**Smart Financing Solution**  
Leasing, rental and cost-per-use financing facilities improve cash flow management and provide access to alternative sources of funding.

**Challenge**  
... adapting to market forces?

**Smart Financing Solution**  
Financing the cost of medical technology over time ensures resources can be better planned and healthcare providers can react quickly to market changes.



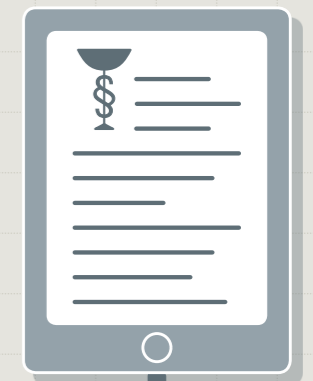
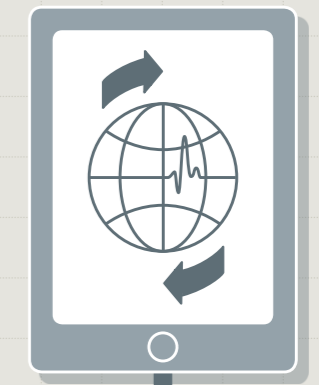
How are healthcare finance managers ...

**Challenge**  
... accessing digital innovation and technological transformation?

**Smart Financing Solution**  
Asset financing techniques can bundle the total cost of ownership and provide flexibility of future upgrades, making innovative technology accessible and affordable.

**Challenge**  
... meeting regulation and compliance requirements?

**Smart Financing Solution**  
Flexible financing solutions can provide access to the technology to support the growing range of official targets and benchmarks.



To read more on how pioneering healthcare finance managers are enabling change within their organizations, visit: [www.siemens.com/champions-of-change](http://www.siemens.com/champions-of-change)

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