

EIU Business Eastern Europe

December 5, 2005

Poland: Cash transplant

Private medical firms look for ways to take a larger share of the healthcare market

Poles have a low opinion of their public healthcare system. According to a Populus survey conducted for the London-based **Stockholm Network** think-tank earlier this year, Polish respondents gave their health services a mere 3.8 points out of a maximum 10 the lowest ranking in any EU member state.

This state of affairs is creating more opportunities in the private sector, which already accounts for half of all doctor's visits, according to the estimates of the Polish Association of Private Health Care Employers (OZPPSZ). The top six medical joint ventures have some 700,000 patients, two thirds of which are corporate subscriptions. Total annual revenue is an estimated ZI 320m (\$98m) and growing at 20-30% a year.

Medicover (Sweden), the market leader with a network of clinics across post-communist Europe, recorded revenues of euro43m (\$50.6m) last year, 60% of which was in Poland. This year, the group expects sales to rise by one-quarter. Medicover serves 3,000 Polish firms and some 100,000 patients, a figure that is forecast to triple within three years. Nearest rival, Lux Med, part-owned by DEG (Germany), has 90,000 patients, and expects 2005 revenues to rise by over 30% to ZI 109m.

Private medical groups have, until recently, relied on corporate subscriptions, which account for two-thirds of the total, as few Poles can afford the typical ZI 200 per month fee. But since last year, employers have not been allowed to account for private healthcare subscriptions in their labour costs, which had brought tax benefits. So medical providers have now joined forces with insurance companies to offer health insurance for ZI 30-50 per month which includes medical treatment. This year, private operators, such as Signal Iduna (Germany), have sold 150,000 health insurance packages. According to World Bank estimates, 15% of Poles will buy health insurance over the next five years.

Cutting out the fat

Health providers are also targeting wealthier expats, especially from Scandinavia and Germany, where medical treatment can be three times costlier than in Poland. For example, German patients account for 40% of all plastic surgery operations performed by Art Medica in the north-western city of Szczecin, while Scandinavians now account for 20% compared with only 2-3% last year, according to Zbigniew Matuszewski, the clinic's head. Privately owned Swissmed has also begun offering surgical treatment for obesity, and not just to fat Germans. The company estimates that 75,000 overweight Poles too might have the money to splurge.

However, not all areas of the health business are so robust. The private sector holds only 2-3% of the market for hospital treatment in terms of the number of beds and patients, according to Adam Kozierekiewicz, an OZPPSZ analyst. Although the number of beds in private hospitals has risen from 4,200 in 2002 to 7,000 in 2004 it is a small fraction of the 180,000 beds in public hospitals. That's because only 4% of Polish hospitals are private, compared with about 30% in the Czech Republic and 50% in France and Germany.

Only local firm EMC Medical Institute operates more than a single hospital. It is about to expand from its current four, to nine in 2006, at a cost of ZI 10m. Swissmed, which has one hospital with

72 beds in the Baltic city of Gdansk, plans to open another, in Warsaw, by 2009. Medcover and Lux Med are also considering either building their own hospitals or participating in hospital privatisations.

But the private operators fear that they will only be able to operate on paying customers, rather than those covered by the National Health Fund (NFZ). If private hospitals can count only on customers who will have to pay for themselves, they will be marginalised, says Marcin Halicki, Luxmed head and the association president. At the moment, sales of medical services covered by the NFZ account for only a small part of private medical firms' revenues.

The OZPPSZ is now lobbying to restore deductions of medical costs from income tax, and to allow firms to count companies' health insurance as part of their labour costs. This, they argue, will reduce some of the current estimated Zl 8bn-10bn of unregistered medical services, which amounts to 12% of Poland's total healthcare market. The association also wants a zero VAT rate which would allow medical providers to deduct tax from purchased goods and services. According to the association, the tax breaks would cost the budget some Zl 1.5bn-1.8bn, but would be partly offset by Zl 413m-930m new revenues from operations formerly in the grey market. Official and unofficial household expenses on healthcare account for 40% of the total, says Mr Halicki. Thanks to the breaks, some of those expenses would become official and thus taxable.

Moreover, Mr Halicki says that the private sector has taken over an increasing burden of health costs in recent years, and estimates that if tax breaks were introduced, private patient numbers could soar fivefold over coming years. The new government has been lukewarm though, saying only that it will consider tax breaks for individuals.

BEATA PASEK, WARSAW

Who gets the money: financing structure of the health sector

(% of total)

National Health Fund	50.4
Patients' expenses on drugs	18.8
Unofficial expenses	13.7
Patients' fees	10.3
State budget	5.1
Local government	1.7

Source: Health Ministry.