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Private equity, some big foreign players and some enormous insurance companies are all waiting anxiously to see if Donald Tusk's new free market government, elected in October 2007, will finally start to free up a healthcare system that is in crisis.

Will it allow the private sector, already growing by 30% to 40% a year, to finally play a bigger role? Some observers, such as Marcin Ajewski, chief executive at consultancy Healthcare Consultants Poland, expect a real revolution. He forecasts that total healthcare spending, both public and private, in Poland, will double over the next eight years to reach 160bn PLN by 2015.

Much depends on whether the politicians move away from a monopoly state insurance model, similar to Britain's monolithic NHS, to a Bismarckian model with competing insurers and a host of private providers. Much also hangs on whether the state will allow private operators to buy a majority stake in underperforming public hospitals.

The situation today is dire. Free healthcare is a right enshrined in the Polish constitution and was at the heart of forty years of communist rule. Yet Polish government health expenditure is one of the lowest as a percent of GDP anywhere in the OECD and, laden with debt, the public hospitals are in a parlous state.

Rainer Schoenberg, vice president at German healthcare insurer Signal Iduna, points out that a new hospital has not been built in Warsaw for 30 years. Others say many public hospitals are still running East German X-ray machines. Waiting lists are the norm. And an outflow of over 5,000 doctors over the last three years hasn't helped.

Quips Mariusz Ignatowicz at PriceWaterhouseCoopers: "It seems that our university hospitals are working for Britain and Scandinavia. The brain drain, particularly of newly qualified doctors, is frightening."
Doctors pay has rocketed up from 500 PLN a month in 2000 to as much as 20,000 PLN a month for some specialists today, says Piotr Gerber, president of EMC.

Ignatowicz says that management remains in a quagmire: "There are no benchmarks, no standard ways of measuring efficiency and so there is a lot of inefficiency."

All this is a big headache for the state. Gerber at EMC says Polish hospitals have until 2012 to meet strict EU standards - he reckons they would overwhelmingly fail if tested today.

Small wonder Schoenberg says that his major competitor is the black market - bungs and bribes given to state-employed doctors to get better treatment. He says this black or grey market is estimated at 10bn to 20bn PLN. That is comparable to the entire Polish pharmaceutical market which ISI Research reckons is worth just 17 bn PLN in 2008.

But Poles fear any change from the current system. The autumn election saw the opposition run scare ads showing an ambulance team refusing treatment to the uninsured. They lost the election, but Ignatowicz says the ads hit a nerve. The private sector is viewed with grave mistrust and this limits policy. For example, one solution would be to let private companies buy out smaller municipal hospitals, but most of the contacts we talked to felt that simply wouldn't be politically acceptable.

What of the private sector? Small, fragmented and growing fast is a good description. Department of Health figures show 769 hospitals in Poland. That includes 180 centres registered as non-public of which half are owned by local government and half are privately owned.

The non-private hospitals are also much smaller than the state hospitals averaging just 27 beds to 48 in the public sector. So barely 5% of all hospital beds are in the non-public sector and half of these are owned by local government. But the private sector's share of medical services has risen from 1% in 2002 to 5% in 2005 and 7% in 2006.

A wave of foreign private equity and the arrival of foreign competitors should transform private healthcare over the next five years and already private equity has made its mark. Deloitte estimates that in 2007 private equity invested €650m and forecasts the same for 2008.

Much of that came from Mid Europa Partners which last year bought three of the top ten networks of clinics - Lux-Med, Rodzinnej and LIM, thus creating a network of over 500,000 subscribers. Medicover, a Pan East-European player, which also operates in Romania, Hungary, the Czech Republic and Estonia, has around 300,000. These two chains are battling it out in the subscription market with Enel-Med which also has a national network with 60,000 subscribers.

All three are targeting the corporate market where employers take out policies for employees and focus on the big cities and, above all, on Warsaw.

EMC, which is listed on the Warsaw stock market, has a different approach. It buys clinics and hospitals from public sector, renovates them and does 80% of its work for the state insurance fund. EMC's Gerber admits that this is less lucrative than the subscription model but he reckons he is "swimming in a bigger river." (See profile)

Elsewhere, small single specialization clinics prevail (Ujastek, Femina - gynecology, Jasne BÅ‚onia, Mavit - ophthalmology, Carolina Medical Center - orthopedics). The number of multi-profile private hospitals is still very limited. The list is short: Damian in Warsaw, Certus in PoznaÅ„, Swissmed in GdaÅ„sk and EMC Medical Institute mainly in Lower Silesia (in WrocÅ‚aw, Åšwiebodzice, ZÄ…bkowice ÅšlÄ…skie, Lubin) but also in KamieÅ„ Pomorski (Zachodniopomorskie) and Ozimek (Opolskie) .

Whilst many claim to have building programmes, only Medicover appears to be actually building. Gerber reckons it takes at least five years to build a hospital from scratch on a greenfield site - so, apart from Medicover, the pipeline is empty.

Full scale health insurance providing cover for acute, as well as minor ailments, is still in its infancy, but has been pioneered by German mutual insurer Signal Iduna, which is expanding at around 160% a year. It is aiming at the corporate market although it may have a domestic offering this autumn.

Schoenberg at Signal Iduna says that a big problem is a simple lack of good facilities and services. This is particularly bad in the acute sector where the private sector does not have a serious offering. Matthew Strassberg at Mid Europa which has bought Lux-Med, Rodzinnej and LIM, says: "If a patient is seriously ill they will go to a public hospital and that is a problem because we can not give them any extra frills. The cleaner is likely to treat them as if Poland were still communist!"

The lack of capacity is made worse by the way private clinic networks typically do not take on work from their competitors. In other words, the private sector is partitioned into a series of silos which work only for their subscriber base. Schoenberg says he is optimistic that this will change in the near future and says he is in talks with the subscription firms.

But others, such as Piotr Soszynski, medical director at Medicover, say firmly that it is company policy to only treat Medicover patients at Medicover clinics - otherwise the brand would be diluted. Others, such as Jacek Rozwadowski, marketing director at Enel-Med Medical Centre, are prepared to cooperate and eventually expect that "the insurers will stick to what they are good at which is managing risk, marketing and having deep pockets and health service providers, like us, will focus on providing the best treatment at low prices."

We look in more detail at Signal's impressive expansion plans in a separate article.

It is worth looking at the subscription model in a little more depth, as it is the core motor driving private healthcare in Poland. Essentially, it offers ambulatory and day care and faster access to family doctors through a network of clinics and a smattering of small hospitals, almost none of which deal with acute illness.

Targeting employers, these pre-payment services typically take 80 pln a month in subscription income per consumer, compared to the 7 pln the state pays its doctors per patient every month. Cash upfront, high margins and no risk of acute illness makes the subscription model deeply attractive.

But the potential at this high price point is limited. The subscription formula tends to work best in Warsaw where public healthcare is stretched to breaking point and where there are many employees on high salaries. Matthew Strassberg at Mid Europa says: "Companies don't want key staff to spend days waiting for appointments. It is very similar to London where almost everyone in financial services has a private healthcare policy." He adds: "Outside Warsaw, even in major cities like Poznan or Wroclaw, it is much harder to sell a subscription service."

Medicover, Lux-Med and Enel-Med have all developed national networks of clinics. Typically, they wholly own the more prestigious units in the larger cities and sub-contract, typically to small private clinics, elsewhere.

Whilst Medicover and others have developed gold and platinum cards which cover acute treatment, well over 90% of their patients get little more than the basic service, fast access to a general doctor. One contact described the approach as "cream skimming" - when people are seriously ill they just go into the state system. It has certainly been a high growth strategy - estimates suggest that the big chains are growing revenue at 30% a year.

Rozwadowski at Enel-Med expects competition to eventually drive the price down to 40PLN a month, at which point he reckons the subscription model will suddenly have real mass appeal.

There has been much talk of the private sector building bright new hospitals, but little action. Medicover will unveil a 180 bed facility in Warsaw at the end of 2009 with the possibility to expand to 270. Medical director Piotr Soszynski says "We will offer basic specialities plus mother and child." He also plans fast efficient surgical procedures and cardiovascular. Note that Medicover also owns 37% of the Damian hospital in Warsaw. Competitors say that Medicover's costs have soared after trouble with builders from 90m PLN to 150m PLN. Some rumours put it even higher.

In the nineties Damien was built in Warsaw, Swissmed opened in Gdansk. Swissmed says it plans four more hospitals and Lux-Med talks of opening in 2009/10. Big German player Asklepios has also opened a subsidiary in Poland, which could eventually roll out a hospital chain, possibly working with big insurers such as Signal Iduna.

Matthew Strassberg at Mid Europa says the group plans to build a hospital in Warsaw by the end of 2010. He has a site, but says it is very hard to find contractors. "There simply isn't the expertise in Poland. We are talking to contractors from France, Austria and even Malaysia!"

Observers say that the truth is that Medicover is the only project which will definitely happen. The costs of a large hospital and the management skills to manage 10 year payback are simply beyond Polish private providers today.

Two eagerly awaited reforms could transform the situation.

Firstly, the government is expected to forgive around 30% of the debt of the 740 state owned hospitals and then make each of them a limited company, mainly owned by the local municipalities. They will then be free to raise money from, and partner with, private operators. But there is a sticking point. Today, the government wants to stop private operators from owning more than 49% of a public hospital.

Gerber at EMC says this makes such schemes impossible. "Many of these are very run-down facilities which need a lot of money and expertise injected into them. The state can not expect us to do that, unless it is prepared to relinquish control," He is optimistic that the 49% barrier will soon go and, before the law changed, has already renovated some 5 hospitals in which EMC has a majority stake or owns outright.

The other big change is that healthcare insurance will be opened up. Ajewski thinks that Poland is going to allow co-payment, where the consumer is free to top up basic coverage with private insurance or, alternatively, to opt out completely by claiming back the basic payment and find a private alternative.

He also expects the government to break up the state monopoly into 4 to 5 regional players, each of which will be free, after three years, to compete across the country, and says that in 2012 private healthcare insurers will be able to enter the market and compete to provide basic health insurance.
Ajewski thinks this scenario is 60-70% likely, but others question his analysis.

Ignatowiscz at PWC reckons that the government lacks the political will for such an extensive reform programme. Instead, he sees salvation for the smaller regional, publicly-owned hospitals in their existing management. "I have seen three cases recently where local hospitals have come together to buy centrally and share expertise. I have been really impressed by their passion and desire to get things right." He sees this grass-roots movement as where change will really come from.

Others are more pessimistic. Jacek Rozwadowski at Enel-Med says he doesn't believe that the government has the stomach for reform and that the public sector management is dire. "It must be nice to work for a business where you can do very little, notch up losses every year and still get paid," he says wistfully, adding: "The public sector is disorganized. You will find two public hospitals close to each other buying diagnostic equipment without telling each other. And above all it doesn't want to learn from us. We have much to teach, but it is not interested in listening."

Perhaps the truth is that Poland's existing private sector is too small, too under-capitalised and too immature to really provide the solution to the huge problems faced by the new reform minded government. If the reform programme is implemented, expect big German hospital operators to move east. Asklepios already has a Polish office.

Schoenberg says: "We've had long discussions with investors and hotel management companies. Large hospital management groups are coming in."

Meanwhile, the Polish private healthcare landscape is changing fast. Ajewski expects the acquisitions and rationalisation to continue: "Smaller hospital groups are talking to each other. They know that they need to combine to become large enough to appeal to foreign private equity buyers and they see this as the future."
Jacek Rozwadowski at Enel-Med, the only big subscription service not backed by private equity, confirms this: "To compete long-term, we need private equity."

Signal Iduna

Big German mutual insurer Signal Iduna is offering healthcare insurance on the German model. It has recruited 30 Polish doctors to assess healthcare facilities in Poland and to cream off the best for Signal patients. So far this chain, Medica, has signed up 500 clinics and 50 hospitals, many of which are good quality public sector facilities, others private. Trained as medical underwriters, these 30 set the agenda, determining what treatments will be allowed for what conditions. If Signal achieves its goal, it will be extremely influential in Polish healthcare.

The strategy appears to be working; Rainer Schoenberg expects sales of 25m PLN this year and says the growth rate is averaging 150-160% and that he will be profitable by 2011 at the latest. By 2012 he hopes to have built a business with sales of €150m

Competitors acknowledge Signal's pioneering role, but the big German now faces more competition. Medicover, the leading subscription service launched a healthcare insurance business in the autumn of 2007 and big Polish insurers are looking at the market and already offer some sorts of health cover wrapped into life insurance policies.

Others say that majors such as PZU, Allianz and Generali are also planning healthcare launches although much depends upon new government legislation. Schoenberg dismisses these big rivals simply saying that they haven't built a network of providers and so can not operate in the market.

And why would a German mutual be exhibiting this much entrepreneurialism? Schoenberg says it is simple: "The German market is growing at 1-2% - to expand you have to either make acquisitions or look abroad for organic growth."

EMC

EMC takes over underperforming state hospitals and clinics and transforms them. The patients it treats come 80% from the state and 20% from private individuals paying for treatment themselves or from the fast growing private health insurers.

Piotr Gerber admits that it is an approach which is less profitable than Medicover's subscription model but he reckons it offers more scope in the long run. He could be the major beneficiary if the state frees up the public sector and allows private operators to buy them out. EMC should also win out from the huge explosion in private health insurance - particularly if the government allows a free market to develop.

Gerber's approach is to takeover existing facilities, an approach which he says takes only 18 months to 2 years. So far, he has 5 hospitals and 10 outpatients clinics in Poland (in WrocÅ‚aw, ZÄ…bkowice ÅšlÄ…skie, Åšwiebodzice, Ozimek, KamieÅ„ Pomorski i Lubin) focused on the area round Wroclaw, but he indicates that he may look further afield and plans to take over 2-3 hospitals this year and the same number next year. One place he won't be going to is Warsaw. "The government pays more or less the same for every procedure we carry out, but costs in the big cities are far higher. Our approach has been to go for hospitals in smaller cities with low cost bases."

As the last government was militantly hostile to private medicine, Gerber looked abroad opening a clinic in Ireland and trying also to appeal to Polish-Americans. Gerber says the Dublin clinic has been a success and he will shortly open a second in Waterford: "There are 200,000 Poles working in Dublin and the Irish health service has its problems. We can provide for them." But the main thrust is clearly in Poland, although he says a UK clinic is "a nice idea."

All this means that Gerber is on the look out for more capital. EMC is listed on the Warsaw stock exchange but raising new money there is all but impossible today, so the company has set up borrowing facilities with banks. If the government pushes through the reforms the company looks a clear candidate for a private equity deal and Gerber says that he has starter some preliminary discussions.

Enel-Med

Enel-Med, which runs the third largest pre-paid subscription service in Poland, is very keen to strike a deal with an outside investor, either an insurer or a private equity player. The company is profitable and sales rose 36pc to 88.3m pln in 2007, but marketing director Jacek Rozwadowski candidly admits that an external investor is now essential if Enel-Med is to continue to be competitive with private equity-backed pre-paid competitors Medicover and Lux-Med.

Long-term, there is a danger of a price war starting and a need to add extra clinics to build the network. "Last year we thought we might go to the stock market, but that isn't in good condition now. We don't want to sell out and we want to keep a majority or seats on the board."

He says that there is "a small queue of 3-4 buyers" and that a deal should be struck by the end of 2008. Enel-Med supports a subscriber base of 60,000 through a network of seven day clinics in Warsaw, each with up to 20 beds, plus similar clinics in Poznan, Wroclaw and Cracow. Rozwadowski expects to add clinics in Lodz and Katowice, but says that further expansion to Gdansk depends on getting an investor. He reckons that the pre-paid market is growing by 250% a year, although Enel-Med leapt 46% in the first quarter, a growth rate that Rozwadowski described as "slightly scary."

Enel-Med is also a major player in diagnostics where it has a dozen centres with MRI and CT scanners around the country. Costing around 2m euros a shot to install, Enel-Med runs these for public hospitals who pay per treatment. The company is then free to sell extra treatments to the private sector. Where there are radiologist shortages, Enel-Med uses tele-radiology and nurses.

Note that, in diagnostics, the company is again in direct competition with Pan-European player, Euromedic, which is also private equity funded.

Enel-Med also pioneered stomatology in Poland and this still accounts for 12-13% of sales. Rozwadowski says it is an area that "we have somewhat neglected but we are coming back to it now."

The company would really like a big 100-120 bed hospital in Warsaw and is looking at three projects, including a greenfield site or renting, but this is dependent upon more investment. The company has grown organically for 15 years, demanding an almost immediate return from any investment and Rozwadowski admits that a hospital would call for a ten year plus investment cycle.

Rozwadowski wouldn't divulge profits but said "we have depended for expansion on bank loans and we wouldn't get those if we showed any minus signs."

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