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Combating rising healthcare costs with innovation

28 May 2024, 3:04 pm CEST, written by Daniel Kalt

Sharply rising healthcare costs pose significant challenges for households and policymakers. However, they also offer investment opportunities, particularly in companies that benefit from spending growth or provide more efficient, cost-effective services.

The issue of disproportionately rising healthcare costs is not only a concern in Switzerland but also a political issue elsewhere. This is because the healthcare market is far from a normal market, not only locally. Let's compare it to the market for—let's say somewhat casually—shoes. If someone needs a new pair of shoes, they can visit various stores and try on different models in various colors and materials. The choice can range from a cheap but perhaps less durable pair, a mid-priced pair, or a high-end brand shoe. Thus, chooses the best fit and design and ultimately pays the purchase price themselves.

The healthcare sector operates quite differently. When someone is ill or has an accident, a doctor diagnoses and suggests a treatment. We rely on this expert advice, and often, concerns about physical well-being also play a significant role. But let's try to view the example from a purely economic perspective and with the necessary sensitivity. Here, the provider largely determines which services are utilized. Thus, the supply dictates the demand—or in technical terms, it's a supply-induced demand. Additionally, the buyer of the healthcare service does not have to bear the costs themselves or only bears a fraction of them. Apart from the annual deductible and a copayment, the health insurance covers the costs.

How would expenditures for shoes develop if the seller dictated which shoes to buy and we only had to pay 10 percent of the price at the checkout, with the rest covered by a "shoe insurance"? The overall economic shoe expenditures would likely rise much more than any other spending category. And that is precisely the core problem in the healthcare market and the reason why costs will likely continue to rise into ever higher realms for years to come. The planned economic instruments for capping costs, which politics has imposed on our healthcare system, do little to help.

There are essentially only two approaches for efficient solutions: The first would be to counteract the fact that providers alone determine the quantity and quality of the demanded services. However, this is extremely difficult to implement, for example, if a second opinion were required for every medical prescription. Secondly, one could ensure that consumers make more cost-conscious benefit assessments of the demanded services. For this, consumers would need to feel the cost consequences of their service usage more acutely. Yet such a demand would likely face difficulties in the political process. It is therefore expected that healthcare expenditures, driven by technological advances, an aging population, and increased health awareness, will continue to rise significantly worldwide.

This should be positive for companies that can benefit from this above-average demand growth. But also for those supporting political efforts for more cost-effective and efficient healthcare services. For selecting attractive investment opportunities, we focus in North America on innovative healthcare solutions, particularly in medical technology and life science tools. We see potential in companies leading in digital health and personalized medicine. In Europe, we are cautiously optimistic but underweight in the Eurozone, as some of the most attractive healthcare companies are located outside this region, in the United Kingdom, Switzerland, and Scandinavia.

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