



HEALTH REFORM AND PHARMA FUTURES

Written by Sophia Tickell

The healthcare industry's current fight over healthcare reform is merely one piece of a bigger conflict, says Sophia Tickell. Instead of fighting for short term profits, the industry and its shareholders would be better suited taking a long term, sustainable approach.

The attempts of the Obama Administration to push through reforms that result in some form of universal healthcare coverage are coursing through choppy waters, as was to be predicted. Advocates for the 47 million Americans without health in-

urance argue that such reforms are necessary and overdue. The Administration claims they will reduce costs, provide better healthcare, benefit people who already have insurance and those who fund it - big and small business alike. The beneficiaries of the ramshackle "system" as it currently operates - the powerful healthcare insurance lobby - are less certain.

This is not the first attempt to undertake comprehensive healthcare reform. Other presidents have sought to achieve the same goal - and come unstuck. Never-

theless, the timing of the reform efforts is interesting and the result no foregone conclusion. They take place against a backdrop of a recessionary economy and widespread scrutiny and mistrust of corporate America in the face of the worst financial crisis since the 1930s.

A decade ago the pharmaceutical industry faced a similar trust deficit to that facing health insurers today. In April 2001 a persistent trickle of damaging headlines about the pharmaceutical industry burst the floodgates. "A little local difficulty" in

South Africa escalated to provoke a questioning of the industry's moral legitimacy to function as it did. The Economist asked, "How did the Industry get itself into this mess?" The specific fight was over the industry-wide challenge to the South African Government's 2001 Medicines Act which was widely interpreted as likely to lead to further restrictive pricing of anti-retroviral medicines for poor Africans.

Irrespective of the many other obstacles to access to these medicines, the industry became the lightning rod of the concern of NGOs, newspapers and activists across the globe who were campaigning against what they argued was the drug industry putting profit above patient needs. And at its heart, this was an issue about the nature of the value the pharmaceutical in-

term owners of pharmaceutical companies, the pension funds had a substantial interest in the continued profitability of a sector that created considerable shareholder value in the 80s and 90s. At the same time they recognised that the industry faced very serious challenges to its business model, not least growing demands for more innovative medicines and for more medicines to be more widely available to people of limited financial means in all markets. Investors wanted reassurance that the industry was not merely "fire-fighting" the myriad challenges it faced and that it was capable of providing on-going profitability whilst simultaneously meeting these growing societal expectations.

The Pharma Futures model of structured dialogue which gave industry executives

of focusing on maximization of shareholder value, and concluded that to provide long-term value for pension funds, a better balance between shareholder and societal needs was required.

It is likely that a similar review of the U.S. health insurance industry would come to the same conclusion. Not only to thrive in the U.S. marketplace over time, but also if it is to meet its ambition to be a global industry, operating in markets such as Europe where socialized medicine has a long and popular history, or in emerging markets where most people cover healthcare out of pocket, and desperately need effective insurance. The pharmaceutical industry demonstrates for healthcare companies to do business in a way that fails to understand the social contract can lead to costly



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dustry offers society—Is it possible to be a commercial enterprise and meet a societal demand on the basis of need?

The change in fortune was striking. Until 1997, the pharmaceutical industry had a net positive poll rating of 60 percent. By 2004 the annual Harris survey had tracked its downward spiral to minus four percent. And it wasn't only the NGOs who were watching. It was in the same year that a small group of long-term investors, pension funds - Algemeen Burgerlijk Pensioenfonds (ABP Netherlands), the Ohio Public Employees Retirement System (OPERS, US) and the Universities Superannuation Scheme (USS, UK) – concerned by the vertiginous fall in fortunes of what had traditionally been a highly profitable sector – published the first Pharma Futures report of their year-long, structured dialogue with pharmaceutical executives and representatives of the financial community. As long-

and fund managers the chance to talk in-depth and at length was an unexpected success. What started as a scenario planning exercise designed to scope the scale of the challenges the industry faced, turned into a longer conversation about underlying value drivers, how to balance short and long term investment requirements and specifically the need for the investment community to find metrics to value long-term intangible assets such as trust, good government relations and social capital. It was a productive journey.

Pharma Futures, directed and facilitated by the think tank and consultancy, SustainAbility, at core was about the different ways in which business fundamentals (in this case productivity challenges, changing societal expectations, developments in technology and the growth in importance of the emerging markets) could be managed. It explored the social consequences

mistrust and stringent regulation. Health insurers would do well to absorb these lessons and seek to engage the financial community in the importance of patient capital - which rewards long-term investment strategies, rather than celebrating short term cash bonanzas. If the healthcare lobby succeeds in stalling Obama's reforms, it is likely to be a battle, not a war that was won. The desperate need for health insurance that covers people in their hour of need will not go away.

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