

The Man Shaking Up The German Healthcare System: Prof. Dr. Karl Lauterbach – Federal Minister Of Health

- In December 2022, Germany’s Minister of Health proposed bold and far-reaching changes in the healthcare system, including a possible move to limit ownership of medical care centres (MVZs), which may materialise in a draft bill by the end of Quarter 1 2023
- Dr Lauterbach has been Germany's health minister since December 2021, having previously served as Deputy parliamentary party leader of the Social Democratic Party (SPD) between 2013 and 2019
- After becoming health minister, Dr Lauterbach promised that his policies would be guided by science, echoing pledges he made repeatedly during the Covid-19 pandemic
- In this piece we look at Dr Lauterbach’s career highlights and evaluate what the proposed limitations of private investment in German healthcare might mean for investors

Independent providers of health care are an important feature of the German health care system, albeit within a highly regulated market. In some sectors, such as dental care and community pharmacies, service delivery is entirely dependent on independent for-profit providers. In other sectors, such as long-term care and acute hospitals, both independent for-profit providers, and independent not-for-profit providers exist alongside public providers. While the country has seen a trend towards growing numbers of independent for-profit providers in health care, Dr Lauterbach surprised many during the course of 2022 by hinting at potentially limiting the ownership of medical care centres (MVZs) to nearby hospitals. Having described PE ownership of MVZs as “highly problematic”, health care investors are, understandably, quite concerned. In this piece, Marwood explores what Dr Lauterbach’s agenda and future changes in Germany may mean for health investors.

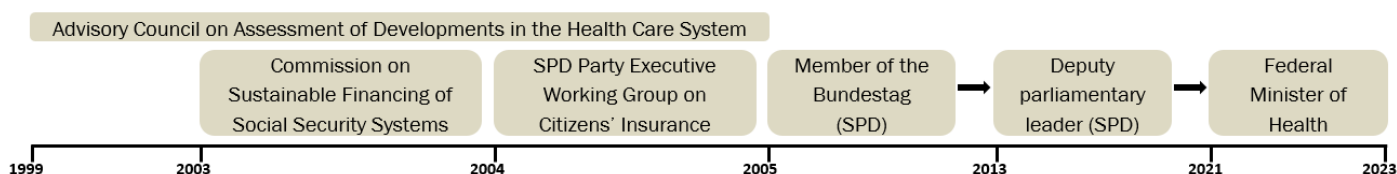


Profile: Prof. Dr Karl Lauterbach

Dr Lauterbach is a scientist, physician, and politician who has been a member of the federal parliament of Germany (the Bundestag) for 18 years. During the Covid-19 crisis, he became a household name across Germany due to his frequent appearances on television, and his regular use of Twitter providing commentary on the pandemic. Dr Lauterbach has been politically involved in German health care system

reforms since 1998. Dr Lauterbach is a strong advocate of ‘Bürgerversicherung’, a concept favoured by the Social Democrats which seeks to reorganise the health system to incorporate all income groups into its financing. More recently, Dr Lauterbach has supported reforms in the hospital sector and made a number of public statements around investor-owned MVZs. MVZs operate in the outpatient sector without any restrictions in the number of specialties they can provide.

An overview of Dr Lauterbach’s political career



Source: Federal Ministry of Health

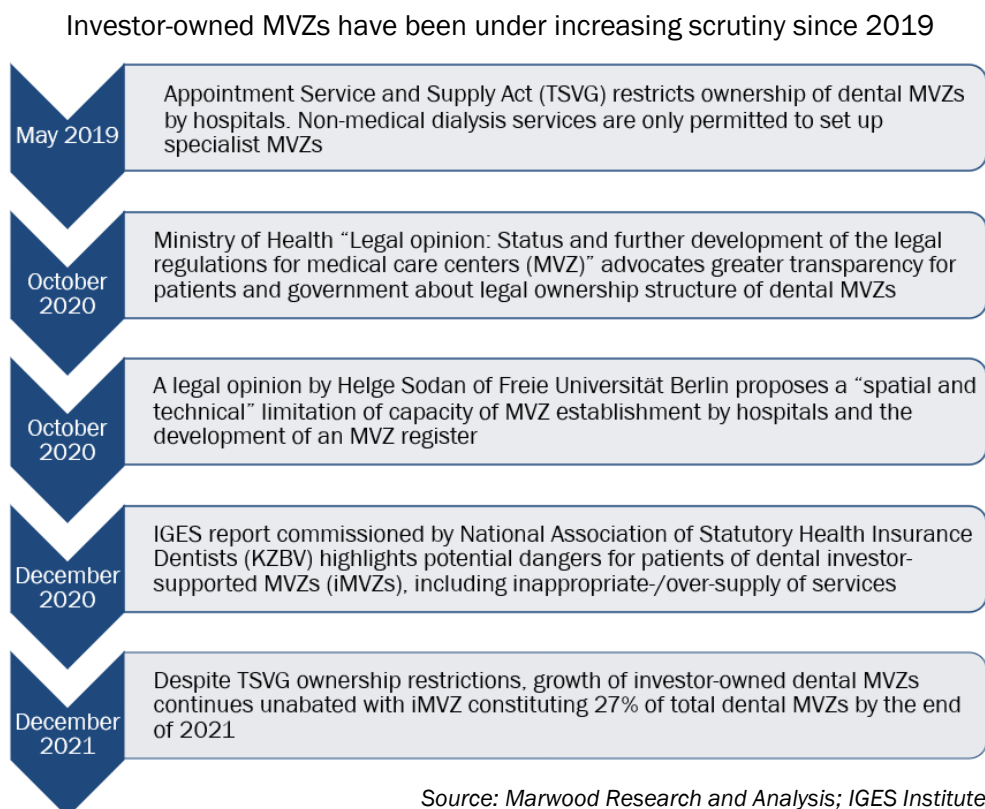
Dr Lauterbach’s proposed reforms may stem from growing momentum against Private Equity (PE) owned medical care centres (MVZs) over the last 3 years. This may point to potential future limits on PE investments in German health care

More recently, Dr Lauterbach has made a series of public comments on wider health system reform as a way to solve the German health system’s problems. In December 2022, Dr Lauterbach argued for reforms to reverse the trend of private investment companies “taking over practices in ophthalmology, dentistry and dialysis, in order to make profits”.

Investor ownership of medical care centres has been under increasing scrutiny in Germany since 2019 but regulations already limit medical care centre (MVZ) ownership

German legislation limits the routes available for private investors to enter the outpatient care sector. The most commonly utilised route is for an investor to purchase a hospital, which can be used as a springboard from which to establish or acquire MVZ assets. This route was made available in 2015, when the Act to Strengthen Care in Statutory Health Insurance (GKV-VSG) removed the requirement for MVZs to be multi-disciplinary care centres. This permitted the formation of specialist clinics, such as dental and ophthalmology centres which form the basis of many investor owned MVZ chains in Germany. The GKV-VSG Act also establishes the requirement of a doctor to assume professional responsibility for MVZ operation. According to the German Social Code Book V, MVZs can only be established by licensed doctors, approved hospitals (those contracted with the statutory health insurance), providers of non-medical dialysis services, recognised practice networks, non-profit organisations, or municipalities.

Following lobbying by the Association of Statutory Health Insurance Dentists (KZBV), further restrictions have applied to dental clinics since the introduction of the Service and Supply Act (TSVG) in 2019. The number of dental MVZs a hospital can establish is limited, depending on the supply of dental services in the area. In general, the number of dental MVZs established may not exceed 10% of the market share in the KZBV planning area they are established in. This is reduced to 5% in areas with an existing high supply of dental clinics but increased to 20% in rural and underserved areas.



Source: Marwood Research and Analysis; IGES Institute Reports

Despite recent controversy, the proportion of medical care centres owned by investors has grown since 2018

Although it is legally possible for PE firms to acquire and operate dental clinics, the media's slant is that they are making profits without contributing to the "system integration" or to better coverage in rural areas. Additionally, dentist and doctor associations' lobbying groups have advocated for further regulation aimed at preventing investors founding and operating MVZs, citing reports by the IGES Institute, a research consultancy, that iMVZs differ in their billing behaviour from other forms of practice. In 2022, Dr Lauterbach expressed support for further restrictions on investor-owned MVZs (iMVZs), describing them as "highly problematic" at the 'Im Praxischeck' event of the National Association of Statutory Health Insurance Physicians.

"So far, we have observed that international companies are taking over practices in ophthalmology, dentists and dialysis, for example, in order to make money. We urgently need to put an end to this. We don't want investor medicine. Medicine is a care based on science. Not a commodity of capitalism."

- Dr Lauterbach [public interview on 14 Dec 2022]

Despite this, one analysis of IGES in 2022 estimated that 1 in 10 MVZs was investor-owned in the KV Bayern region in 2019, with a 78% increase in the number of iMVZs between 2018 and 2019. As iMVZs continue to increase in market share, the Federal Ministry of Health may face difficulty in restricting private investment in outpatient care without disrupting the supply of health care services.

Health care in Germany is highly dependent on independent for-profit provision so further moves towards limiting ownership of MVZs may face challenges

With the winds of change blowing towards potential new limits on ownership of MVZs, and a draft bill expected by the end of Quarter 1 of 2021, several different policy options may be considered over the next few months. At one end of the spectrum, there may be a push to mirror limits within the community pharmacy sector so that MVZs can only be run by doctors.

Due to the prevalence of iMVZs and reliance on them, a softer policy approach may be more likely. One option is the creation of a new register of MVZs so policymakers can monitor the number of MVZs and the proportion of MVZs with private investors, as well as the regional distribution of iMVZs compared to individual practices/professional associations, and in relation to the density of doctors and dentists. While this will take time to set up and monitor, there may be an increased focus on monitoring the quality of care provided by iMVZs, or a review of the function of the medical director within an MVZ. The most likely regulatory scrutiny may come from a competition perspective, whereby concerns about an iMVZ having a dominant position in regional health care are examined. This will be complex due to the multiple federal organisations involved in public consumer protection across Germany.

There are strict ownership restrictions in the community pharmacy sector in Germany – to certain individuals and within geographic areas. Similar limits on MVZ ownership are not expected

- Third-party ownership of community pharmacies is not allowed in Germany, the operator of a pharmacy must be a pharmacist
- Pharmacists are not allowed to operate more than three pharmacies besides the main pharmacy, and branches must be in close proximity to one another
- There are specific requirements for premises and equipment, and approved mail-order and internet pharmacies are considered equal to physical community pharmacies and must meet the same requirements

Whatever the direction of policy and legislation, immediate action is unlikely as other agenda items vie for Dr Lauterbach's attention over the next years

The top 3 issues facing the German Federal Minister of Health

1. Financing public-pay health and social care

Germany's pay-as-you-go system of statutory health insurance (GKV) and social long-term care insurance (SPV) are being challenged by demographic shifts across the country. For almost 20 years, the GKV has not been able to finance itself from its contribution income and statutory health insurance has received federal subsidies to the health fund. Over many years, state grants had been in the order of €14.5 billion per year but due to the pandemic, the subsidy was increased to €28.5 billion in 2022. This is by far the largest single item in financial assistance from the federal government, and Dr Lauterbach will be looking to control the spend.

2. Driving the digitalisation of the health care system

Since 2018, Germany has introduced a legislative framework for the digitisation of healthcare, including for electronic patient records, telemedicine, and e-prescriptions. Between 2019 and 2021, a total of 7 bills focused on e-health were introduced. Dr Lauterbach may look to close the gap between Germany and its Northern and Western European neighbours as Germany's e-health infrastructure remains underdeveloped and underutilized.

3. Nationwide hospital reforms

Proposals outlined by the Commission for Modern and Needs-Based Hospital Care in December 2022 will form the basis of a wide-ranging hospital reform bill expected by Summer 2023. Key areas of focus will include changes to the DRG flat-rate reimbursement system currently utilised for hospital treatments, and uniform national classification of hospitals into three levels of varying competency. Lauterbach has made these reforms a flagship project of his tenure as Federal Minister of Health but may face opposition from state governments over the centralisation of hospital financing and regulation.

Conclusion

The proposals to limit private ownership within the outpatient care market are rightly concerning for investors. However, the German healthcare sector relies heavily on independent for-profit clinics to provide outpatient care, which has historically been difficult to provide in hospitals due to issues around remuneration. Owing to this reliance, and the diversity of service provision between MVZs, it is unlikely that a draft bill will introduce limitations as strict as those currently surrounding ownership of community pharmacies. Restrictions of a softer policy nature, particularly mimicking those applied to dental MVZs, are more likely. Marwood can help investors understand the potential for restrictions of investor involvement in Germany's healthcare market under Dr Lauterbach's leadership and evaluate these might mean for investors.

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