

How ESG policies can keep the healthcare sector fighting fit

ESG policies may appear to have been put on the back burner following Trump's re-election and the EU's Omnibus proposal – but we think they're here to stay in the long term when it comes to healthcare. The transition is still in its early stages, but better choices now will provide significant benefits later down the line



We believe that healthcare companies proactively investing in better sustainability outcomes now will be well-positioned for greater success in the long run

A holistic view of environmental, social and governance (ESG) policy in healthcare

The healthcare sector provides care, medicines and innovative solutions to people worldwide. All healthcare companies aim to help people lead healthier and longer lives, contributing to the United Nation's third sustainable development goal (SDG): good health and well-being. All healthcare companies should also be trying to take climate action (as per SDG 13) because climate change presents a significant risk to human health. It negatively impacts air quality, for instance, which in turn can cause respiratory and cardiovascular issues (EPA).

Other SDGs healthcare companies might contribute to include responsible production (SDG

12), clean energy (SDG 7), and reduced inequalities (SDG 10). Our view is that achieving these goals will continue to be of strategic importance for healthcare companies, largely because of two key trends – energy efficiency and procurement standards. These aid in the development of sustainable business cases and exist as two concrete examples of sustainable business cases that concern prevention and digitalisation.

Reducing emissions a logical first step

Naturally, producing pharmaceuticals, treating patients, and keeping devices whirring and hospitals warm requires a substantial amount of energy – [between 4-5% of all emissions globally](#).

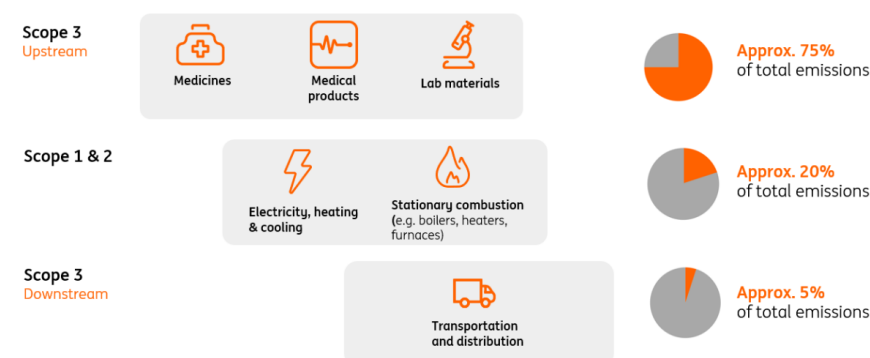
From the perspective of a healthcare provider, [80% of these emissions](#) come from Scope 3. The manufacturing of medical devices, medical products and pharmaceuticals creates a significant share of emissions, at around 75%.

Scope 1 and 2 emissions account for 20%, primarily stemming from activities such as the heating and cooling of care facilities. Because of the substantial amount of energy required by the healthcare sector, energy efficiency saves costs and is good for bottom lines, particularly in the long run.

This is especially true for more ‘manufacturing-heavy’ sectors such as pharmaceuticals and medtech; the focus of their ESG policies will primarily be on the E. As you move down the value chain towards patient-facing operations, the focus understandably shifts towards the S.

Most emissions of healthcare providers arise at the beginning of the value chain

Schematic breakdown of emissions from the perspective of a healthcare provider



Source: ING

Procurement requirements spur improved ESG policies

Many governmental bodies have committed to having net zero healthcare systems within the coming decades. With this goal in mind, they are increasingly setting strict ESG standards for their suppliers.

The UK’s National Health Service (NHS), for instance, aims to be net zero by 2045. To meet its net

zero target, the NHS aims to optimise its estates and facilities, reduce emissions from travel and transport (e.g., electrifying its transport fleet and promoting cycling for staff), decarbonise its supply chain, and use low-carbon medical equipment and pharmaceuticals where possible. Critically, the NHS has set sustainability requirements in its procurement processes. The [NHS states](#) that suppliers will only be able to qualify for NHS contracts if they can demonstrate their progress through published progress reports and continued carbon emissions reporting. For many healthcare companies, this means creating full lifecycle assessments for their products and services to gain a deeper understanding of how their operations impact the emissions they generate.

In doing so, the NHS leverages its scale to force its suppliers to adopt better sustainability practices. This, in turn, means that not implementing better sustainability policies will eventually hurt companies. Because of its scale, the NHS has the power to put sustainability requirements in place; countries that arrange their procurement in a more decentralised manner do not have the same market power. Still, we believe that procurement requirements will become commonplace over the next years, especially in Europe. This makes procurement a driving force for better and more detailed sustainability policies.

Prevention as a profitable business case

Our positive outlook on ESG in the healthcare sector is not solely based on the increasing importance of energy efficiency and new procurement policies, but also on the fact that companies across the healthcare value chain are leveraging sustainability for profitable business cases. The first comes from an unlikely source: preventative care. In general, there is a growing recognition of the need to shift focus from treatment to prevention to ensure the sustainability of healthcare systems.

Shifting to preventative care is easier said than done

For instance, Australia's public hospitals are currently experiencing severe strain due to preventable diseases and an overburdened hospital system (as reported by the Australian Medical Association). But shifting to more preventative care is easier said than done, and a key reason for this is the difficulty in building a business case for preventative care. Yet, preventative care would lead to more sustainable outcomes because it decreases the number of hospital admissions, lowers costs for employers, and improves well-being and productivity.

Medicover, a healthcare provider and insurance company active in Central and Eastern Europe and India has been able to build such a business case. By combining insurance targeted at employers with the provision of healthcare, Medicover has found a way to monetise prevention despite the industry's general reluctance to pay for it. The company recognises that focusing on early diagnosis and preventative health measures not only improves patient outcomes but also reduces healthcare system burdens. In short, their subscription model aligns incentives by both reducing healthcare costs and improving workforce productivity.

Digitalisation provides sustainability wins and commercial opportunities

Digitalisation provides healthcare companies with the opportunity to cut down on patient travel and infrastructure needs, as well as job carving (i.e., freeing up the most well-trained professionals for the most complex tasks). This could potentially make healthcare delivery more efficient while lowering both carbon emissions and costs.

Digitalisation could help ease the global shortage of healthcare workers

Telemedicine, for instance, reduces the need for travel, hospital infrastructure, and associated emissions. Moreover, by implementing more virtual care healthcare, providers can plan staff hours more efficiently. This is especially promising given the shortage of healthcare workers globally. Decentralised care models, including home-based monitoring and remote diagnostics, further reduce healthcare's environmental footprint.

Digitalisation also provides commercial opportunities. A case in point is Philips' collaboration with the Gates Foundation on portable ultrasound technology. Currently, using this technology requires nine months of training and is reserved for specialists. Philips is developing AI-based applications to allow nurses and midwives to perform ultrasounds at point-of-care, allowing them to triage high-risk pregnancies in low-resource settings. This exemplifies how digital solutions can expand access to care while reducing the need for resource-intensive hospital visits.

ESG in healthcare is here to stay

Healthcare companies that proactively invest in better sustainability outcomes, such as preventative care, will be well-positioned for long-term success. The industry's transformation is still in its early stages, but companies that embrace sustainability now will benefit from regulatory incentives, cost savings, and improved patient outcomes in the years ahead. Challenges do remain, but we believe that smart choices being taken now hold the potential to make sustainable business good business.

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