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A new set of rules is emerging in Mexican healthcare

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Novartis Mexico Country President Fernando Cruz outlines the new normal for Mexican healthcare post-regulatory reform, how the company's global reshuffle has impacted Mexican operations, and the challenges inherent in bringing innovative treatments to what is a still-developing market.

Fernando, before joining Novartis Mexico in 2015, you spent over a decade working for the Mexican government in various capacities. With the significant healthcare reforms being launched by the administration of President Andres Manuel Lopez Obrador (AMLO) over the past year, how should the industry understand these new signals?

A new set of rules is emerging in Mexican healthcare. In many cases, these rules are aligned with priorities that we as an industry have always shared with the Mexican government, not only the current administration but also the previous ones, including universal coverage, affordability, and a unified healthcare system in place of the several sub-systems present in Mexico today. President Lopez Obrador is saying that Mexico needs more efficiency, not only in the way in which Mexico invests resources into the healthcare system but also in the way that different stakeholders engage with each other – which we agree with.

One of the key reforms has been the centralized procurement of all medicines and medical supplies for the public healthcare system, to be managed by the Ministry of Finance. Part of the intention was to eliminate distribution from the existing pharmaceutical value chain, and as a result,

pharmaceutical companies were asked to supply the goods directly to the government across over 3000 points of distribution nationally. This is something that the pharma industry simply lacks the capabilities to do. Therefore, we opened a dialogue with the authorities to help them understand that despite their good intentions, we needed to find a compromise and make sure that the right drug gets to the right patient at the right time and conditions. While the conversation was long and difficult, ultimately, we are happy that both sides found common ground regarding the situation.

We also feel that in addition to price-only-based tenders, there are other ways to boost the financial sustainability of the healthcare system in Mexico. Novartis has been more than happy to sit down with the authorities to discuss ways to deliver innovation in a way that is affordable to the system, but we also want to emphasize that financial sustainability also has to do with other factors like outcome-based business models, in which the system pays for patient outcomes, not units of medicine. What we are trying to promote now within the Mexican healthcare ecosystem is the evolution of the existing transaction-based business model into a value-based business model. Centralized tenders are just one part of the multi-factorial conversation we need to have in Mexico to tackle health challenges.

Novartis has always operated in consensus with the Mexican governments' priorities. While there are issues for both industry and government to address, generally speaking, Novartis and other pharma companies in Mexico do recognize that we need to be part of the solution, not part of the problem. At Novartis, we genuinely want to be seen as an ally of and a trusted advisor to the Mexican government.

Shifting to Novartis' global reorganization under CEO Vas Narasimhan, digital transformation has been a big part of the agenda. How has this played out in Novartis Mexico?

Globally, Novartis has seen a number of transformations including the spin-off of Alcon and the reimagining of the company as a medicines and data science company. In the region, we have certainly been driving the digital transformation of Novartis. Novartis was actually one of the first companies in Mexico to talk about how to bring data and digital into our business. In 2018, we launched an innovation and transformation ideas lab, and now two years later, we are ready to scale up some of the pilot initiatives from that lab. For instance, we are very excited about how digital tools like AI can be used to empower patients, who are at the centre of all we do and who deserve to understand their conditions, their rights and the best ways to engage with their

healthcare systems.

Another huge topic is the need to integrate robust indicators of healthcare service and delivery into the Mexican healthcare system. If we want to shift the conversation to outcome-based healthcare, we need to be able to measure healthcare outcomes. We cannot improve something that we cannot measure. Therefore, another huge question we are trying to address together with the authorities is how Novartis can help them bring digital tools and technology like AI and the Internet of Things into public institutions. We want to start small and upscale! When you consider the fact that the *Instituto Mexicano del Seguro Social* (IMSS) itself serves over 70 million patients, we have a massive ecosystem within which we can drive clinical research and value-based business models. With the previous administration, Novartis had started a pilot program with IMSS for data managers, and we are now working with the current administration to see how we can continue collaborating on such initiatives.

That said, while Novartis is leading the way here, we also need the cooperation of the entire industry, including the medical devices sector. Looking broadly, the whole ecosystem needs to team up to develop affordable solutions to Mexico's healthcare challenges. As a whole, Mexico is underinvesting in health, with only around six percent of our GDP going to healthcare – and half of that is out-of-pocket, so total public investment in health is only at three percent of GDP compared to the OECD average of nine percent.

Pharmaceutical innovation is also a big part of Novartis' DNA. How can this be manifested in a country like Mexico that still faces challenges in terms of basic healthcare provision and access?

As you know, Novartis is the first company to launch cell and gene therapies globally. Increasing access is indeed a challenge when it comes to countries like Mexico because these therapies bring a tremendous amount of value but they do not necessarily come cheap. This is why we need to find new ways to share the value of medicines and patient outcomes. At Novartis, we abide by what we call our 'Access Principles'; we are committed to not only continue generating disruptive innovations but also delivering those innovations to both developed and emerging markets. This is why it is so important for us to have a positive dialogue with government and other stakeholders in order to build trust.

However, in Mexico currently, there is a lack of fluid and open dialogue between the regulatory authorities and the industry. For instance, the New Molecules Committee under COFEPRIS has

stopped functioning for a number of months as the regulator is reorganizing internally. This has big implications not only for public health but also for the competitiveness of Mexico when it comes to future pharmaceutical investment and innovative product launches. Regionally, other countries like Brazil, Colombia and even Argentina have faster product approval and launch timelines, which means that patients in these countries receive the benefits of innovative medicines before Mexican patients. While we understand the need for COFEPRIS to reorganize, we have been urging the authorities to resume conversations with the industry.

At the same time, Novartis does lead the way in terms of collaboration agreements with the government across different areas like medical education, capacity building and outcomes-based business models. For instance, we have recently submitted two proposals for outcomes-based models: one for multiple sclerosis and one for diabetic retinopathy, and we hope we can advance with these models over the next few months.

Another way in which we are trying to collaborate is through tackling the disease priorities of the current Mexican government, which are three: cancer, diabetes, and cardiovascular diseases. One major initiative Novartis aims to bring to Mexico this year is our global program, “Novartis Access”. Under this program, we provide a 15-molecule portfolio of core medicines – some generic, some patented – at a nominal price of USD 1 per month per patient. This program has traditionally been implemented in low-income countries in Africa and Asia but we advocated for bringing this program to Mexico as well. While Mexico is considered a middle-income country, there are severe inequities in terms of income distribution and healthcare provision. 50 million Mexicans still live below the poverty line of the World Bank. Therefore, we believe that it was important to bring this program to the severely underserved populations in Mexico, who lack not only access to innovative treatments but also basic therapies. The first wave, which we hope to launch this year, will tackle three diseases: breast cancer, diabetes, and cardiovascular diseases – well in line with the government’s health priorities.

Despite all these challenges, the affiliate still has to grow commercially. How has Novartis Mexico performed?

I am pleased that while 2019 started off on a challenging note, at the end of the year, we saw positive results with 4.5 percent growth, in line with our budget, compared with nine percent for Novartis globally. This is a pretty decent result compared to the local pharma industry. What we want to do now is to achieve some sort of certainty in the way we forecast and anticipate

developments within the Mexican pharma industry.

Commercial success for the affiliate depends on providing valuable proposals and action plans for all our stakeholders, and ultimately moving beyond a purely transactional commercial business model to talk about access and outcomes. We recognize that there is goodwill within the Mexican government to improve healthcare for Mexican people. The name of the game is to understand their priorities and provide value to support them. Novartis has been in Mexico for 80 years so we have a deep understanding of healthcare needs in Mexico. We recognize where the government is coming from, but we also want to share our own insights. The challenge now is to build the trust so that public stakeholders recognize in Novartis and the industry at large a valued ally.

To that end, the ‘Swissness’ of the company is recognized, just as there is a general sense that multinational companies abide by internal guidelines of ethics and compliance. Today, Novartis is one of the top 25 companies in Mexico (across all industries) in terms of reputation. We are recognized also for our efforts in diversity and inclusion, which are core priorities for Novartis globally. In Mexico, these topics are extremely relevant because Mexico is still a highly patriarchal country. However, at Novartis Mexico, we have a pretty balanced gender ratio in management positions: 55 percent men and 45 percent women. We are also ranked 36^{th} in terms of the top 500 companies against corruption in Mexico. All these contribute to a solid reputation, opening the doors to have valuable conversations with different stakeholders. But we still have a long way to go in terms of building trust.

Mexico has one of the only five Global Service Centers (GSC) for Novartis globally. What does this mean in terms of the significance of the Mexico market for Novartis?

Mexico is one of the top 15 markets for Novartis globally and the country is extremely strategic for the Company. Looking at the GSC in Mexico, it started in 2015 with just a few associates and today, we have around 600 employees in the GSC alone. We intend to nearly double that to 1000 over the next few years. At the same time, we continue to invest in clinical research. We also plan to build a Quality Lab in Mexico to do QC testing for Mexico as well as other Central American markets. That would be the first Quality Lab in Mexico with a regional scope.

Novartis continues to see Mexico as a market of opportunities despite the sometimes prevalent image of Mexico abroad as a country beset by security crises. We cannot deny that there are security issues but Mexico is still seen as a very important market with great opportunities. We do want to see more certainty and a clearer set of rules when it comes to investment, as well as more

dialogue with regulatory authorities.

When you consider that Mexico has a population of 140 million people, of which 90 percent rely on the public healthcare system, Mexico is a highly aspirational market in terms of developing models of partnership with the public healthcare system for long-term sustainability. This is a conundrum not only for Mexico but in most healthcare systems globally. Mexico currently enjoys a demographic bonus with a lot of youths but the society is ageing and we anticipate that 70 percent of the disease burden in the future will come from non-communicable diseases (NCDs). This burden will then be borne by a smaller population of young people. The industry and the system need to work together. In Mexico, Novartis is taking the lead in bringing the private and public sectors together.

Another new element Novartis has introduced is its 'unbossed' corporate culture. How well does that fit within the local context?

Out of the more than 155 countries and territories in which Novartis is present, Mexico might be one of the best places to have this 'unboss' culture. The type of talent we have in our GSC – typically young people – loves the 'unboss' culture and what it implies, and Mexico also has a lot of young people in the workforce due to the current demographic bonus. 'Unboss' really means accountability, purpose, curiosity, entrepreneurship – not the lack of bosses! We encourage our employees to try new things and not to be afraid of failures. This is extremely different to the work culture in place when I started my career in the public sector two decades ago. We have seen that many young people are attracted to our culture, and after they join Novartis, they live and breathe this culture.

I feel that we are leading the way in terms of cultural transformation across the industry and also the Mexican landscape. This culture fits very well with the youth social program introduced by President AMLO, the *Jóvenes Construyendo el Futuro* ("Youths Building the Future"), and we participated in this program last year. I must mention here that Novartis is a member of the Swiss-Mexican Chamber of Industry, the only bi-national chamber to have a collaboration agreement with the Ministry of Labour (who oversees this program), and I am also the chairman of the Chamber. Since we signed that agreement, the members of the Chamber collectively have published 500 open positions for young people.

Finally, on a more personal note, having joined Novartis from the public sector in 2015, what made you decide to join Novartis and how do you see your career developing in the future?

What motivated me to join was a combination of curiosity in the industry as well as a great impression of Novartis as a company in general. As a public officer, I had previously worked with the pharma industry and knew about Novartis vaguely but positively. In addition, the chemistry with the leadership team was great and I saw that in both Mexico and regionally, there was an excellent ecosystem within Mexico to grow.

Back then, I was told that the healthcare industry is an industry that you either love or hate. But if you love it, it becomes your passion and it would be extremely hard for you to leave. In the beginning, many of the concepts were foreign to me, but I found the industry so interesting and its purpose so exceptionally compelling that the industry really captured me. In Mexico and across the region, it is really one of the most vibrant and interesting sectors to work in, and one where you can really make your mark.

Within the industry, Novartis best portrays the purpose of working in healthcare. Novartis genuinely wants to bring disruptive innovations to impact people’s lives positively in an affordable and sustainable way for all countries. I absolutely think Novartis is the best pharma company to work for and I am extremely happy to say that I do plan on continuing my career with Novartis.

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