

Overview and outlook for hospital services in Saudi Arabia



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Executive Summary

Healthcare services are one of the most lucrative sectors in KSA. Fuelled by increase in affluence, improvement in services and facilities provided by private sector hospitals and life style related health problems, this sector has witnessed a compounded annual growth rate of 10.5% between years 2002 to 2007 – one of the highest growth rates amongst world healthcare markets. We estimate the market to continue this fast pace of growth and reach a size of SAR 151 billions – a compounded annual growth rate of 6.2% for the next eighteen years. No other region in the world is experiencing this scale of growth coupled with need for treatment due to affluence generated disorders.

Slow growth in government hospitals and lesser breadth of treatment offered by government hospitals has resulted in private players increasing their market share. Private players are expected to continue their much higher growth trajectory as compared to government hospitals. For private players one of the favorable regulatory developments is the compulsory health insurance for expatriate population (including the relatively low income population). This is expected to provide a big boost to the growth in private sector hospitals as insurers are primarily tying up with private service providers, having good facilities and services. Private healthcare providers will witness a huge growth with the market size of private hospitals is expected to reach SAR 71 billions by 2025 – a market share of almost 62% in the hospital market and a growth of over 400% on a conservative basis.

Government that funds almost 75% of the total healthcare spend today will face challenge in funding the treatment of ageing population and rapidly growing lifestyle related disease. Realizing this, government in KSA has already started incentivising private sector to cope with the growing demand of patients.

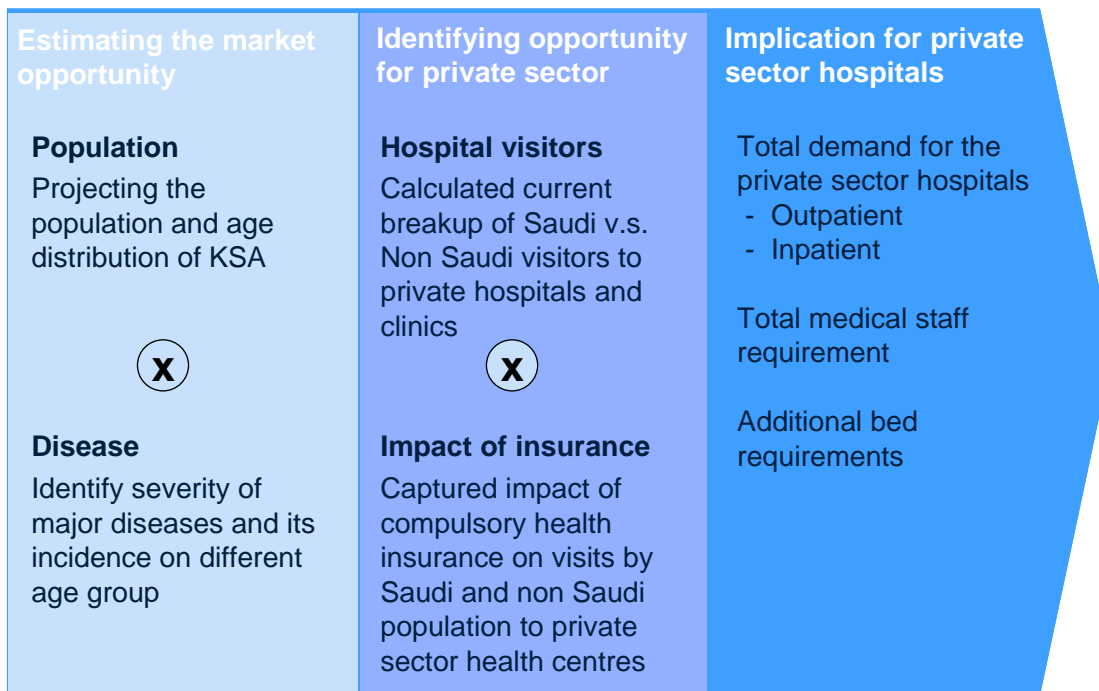
The environment is thus set for the private players to tap this emerging opportunity with allied sectors like payor and provider will also witness huge growth in the time to come.

Future expectations of the hospitals

Till 2007, hospitals have witnessed an impressive growth. This growth is expected to continue till 2025 with demand growing and government changing its outlook on healthcare, the door is open for private players to establish and scale-up their facilities. We estimate the hospitals market to grow at a CAGR of 5 % over the next fifteen years and will continue to grow fast to reach a size of SAR 116 billion by 2025.

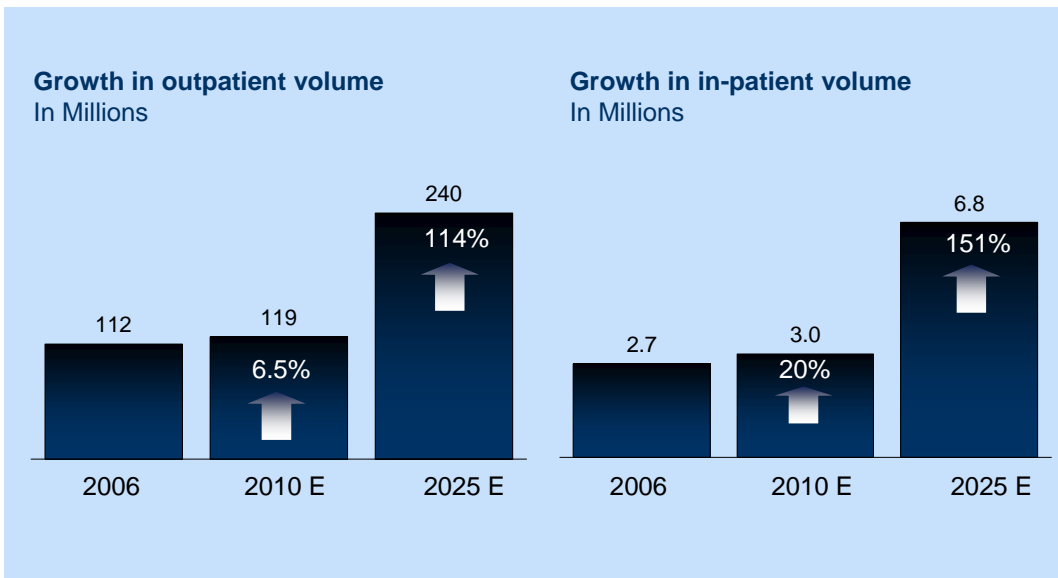
For predicting the future demand for the hospital industry, we have created a proprietary model that consider factors like population and its distribution, prevalence of life style related disease, better penetration of health insurance and government policies.

Figure 1: Modeling approach for estimating the market size



Our models predict around 114% increase in the outpatient volumes for KSA by 2025. In-patient volumes are expected to grow at a higher rate of 151% by 2025.

Figure 2: Growth of patient flow to the hospitals



In terms of severity due to life style related disease, our estimates suggest that they will contribute almost 10% to the hospital visits. This is due to the fact that the disease affecting the population due to life style related problems is not widespread.

Absolute number of visits though will still be high, life style related disease will mean extra 19 million visits to the hospitals.

Figure 3: Breakup of increase in visits due to different factors

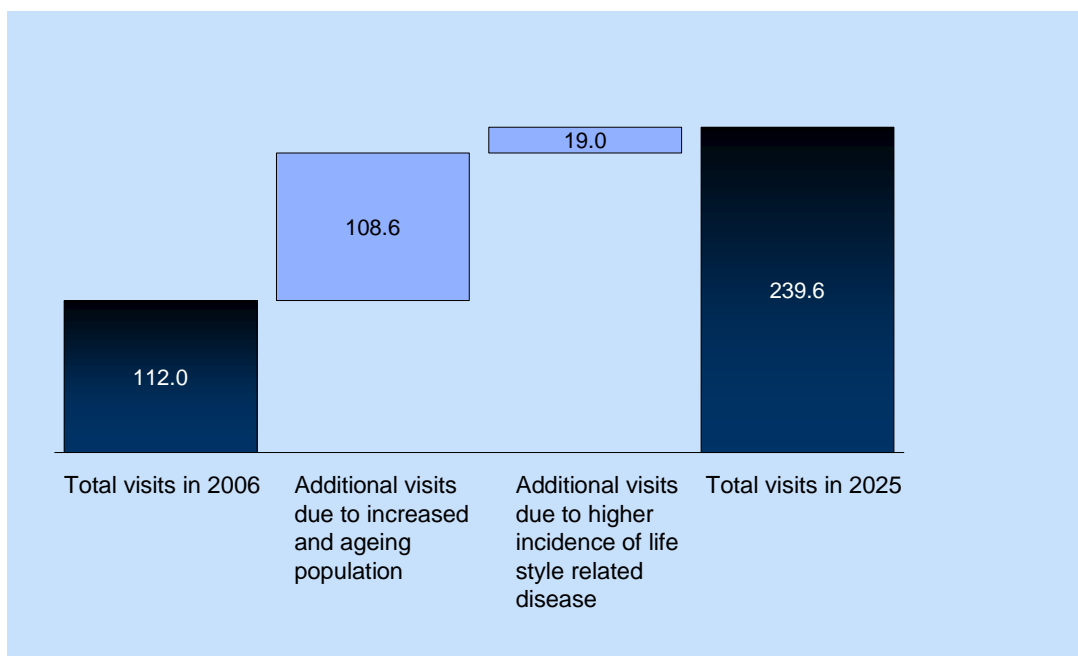
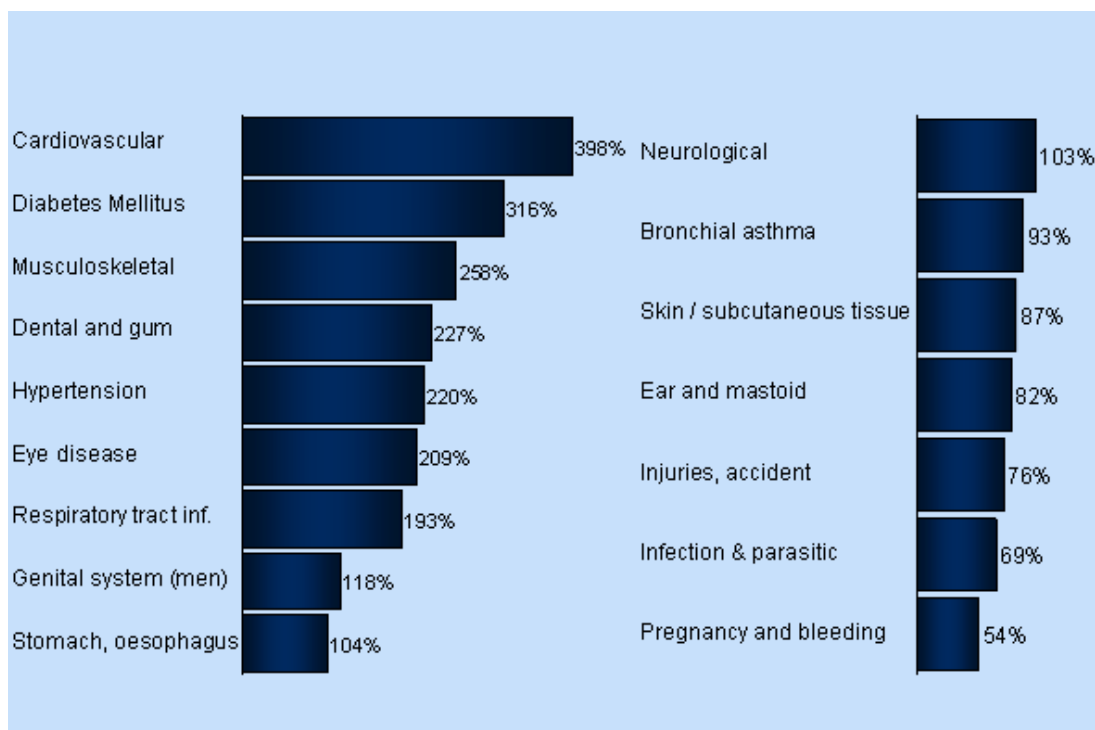


Figure 4: Evolution of disease over the next 18 years


Better penetration of health insurance making healthcare open for big chunk of population

Insurance penetration has witnessed an increasing trend in the last couple of years. The per capita insurance premium has increased from SAR 223 in 2005 to SAR 354 in 2007. Per capita premium for health insurance has also improved from SAR 59 in 2005 to SAR 126 in 2007.

KSA is the largest player in GCC in terms of Gross written premium; however, the insurance density (gross written premium per capital) is much lower at around SAR 354 and SAR 126.4 for health insurance in particular, whereas in UAE and Kuwait this ratio is SAR 1090 and SAR 458 respectively.

KSA has implemented co-operative health insurance policy in three phases. Phase 1 requires employers of firms with 500 employees or more to purchase private co-operative health insurance for their expatriate employees and dependents. Phase 2 requires employers with more than 100 employees to purchase private insurance for their employees and the phase 3 requires employers having less than 100 employees to buy insurance for their expatriate employees. The first two phases are already implemented and around 3.3 million expatriates are insured now. The third phase is expected to be implemented soon. Three years from now, majority of around 16 million Saudi nationals are also to be covered by a mandatory health insurance scheme and all expatriate employees will have to be covered (3.3 million expatriates already covered) by their sponsor and will no longer receive free treatment at government hospitals. This will take the burden off from the government with the private sector participation taking place.

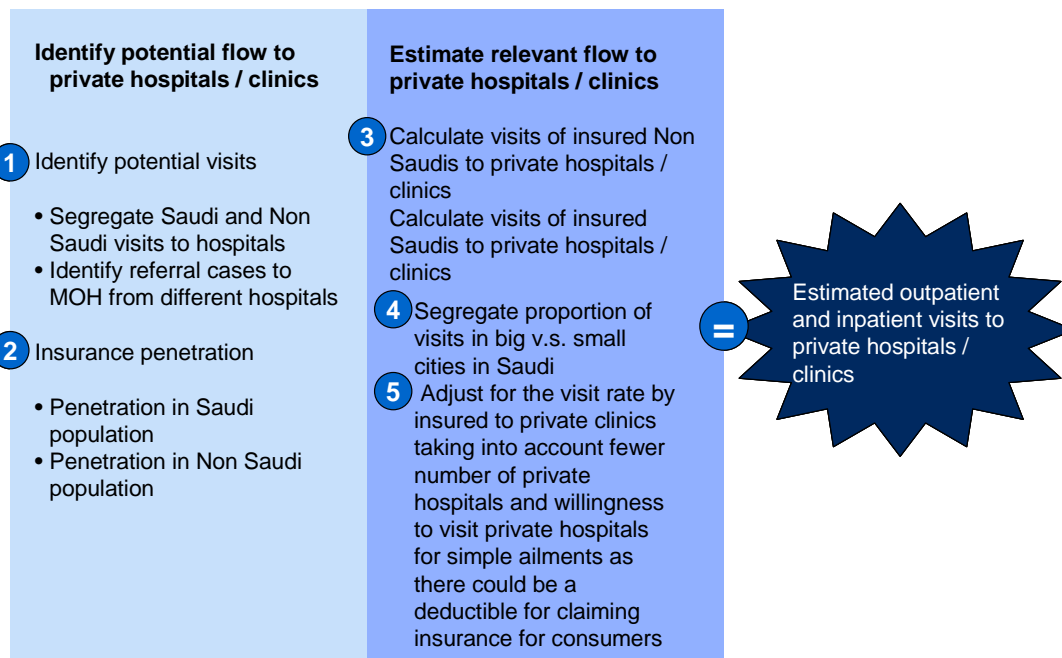
The insurance companies will have a wider client base as they will be covering a much wider population base, which might not have opted for insurance on their own. There will be a boost in the revenues of insurance sector.

If people are insured they would prefer to go to private hospital rather than MOH or other governmental hospitals. Primary reason for this is the better quality and fast response of services provided in private hospitals. Movement to private hospitals and clinics is already witnessed with compulsory health insurance penetration going up in Saudi. People are shifting from MOH hospitals to private hospitals. A fall of 3.5% in total visits in MOH from 2004 to 2006 and 14.6% increase in private hospitals during the same period.

The growth in health insurance market will in turn help the private hospitals to strengthen their base. This growth is expected to increase at a much greater pace with the implementation of phase 3 of the co-operative health insurance plan where Saudi nationals will also need to take compulsory insurance.

To estimate the impact of health insurance on the health care market, we have created a model to identify the demand for private sector hospitals, once all the Saudi nationals and expatriates are brought under necessary co-operative health insurance. For estimating this, we have looked at historical trend on insurance penetration clubbed with shifting population to private sector hospitals.

Figure 5: Model to estimate the size of private sector in KSA



Firstly, we have tried to estimate the potential demand broken down by Saudi and Non Saudi visits. We have then tried to figure out the insurance penetration, once government makes it mandatory for employers and Saudi population. We have used McKinsey estimate for insurance penetration.

We assume that majority of the expatriates will go to private hospitals barring the ones that will avoid OPD for simple ailments due to deductibles imposed by the insurers, however for Saudi nationals; we have tried to segregate visits to private hospitals between bigger cities and smaller cities. We assume that the bigger cities having relatively higher per capita income will be more open to visit private hospitals even if they have to pay

a basic deductible imposed by the insurers. We hence assume that majority of the visits in bigger cities will be in private hospitals. Population at smaller cities will face two problems (1) non availability of a lot of world class facility private hospitals and clinics and (2) per capita income being lower, people may not opt to visit private clinics for minor problems as they will have to pay deductibles from their pocket. These adjustments have helped us arrive at estimated outpatient and inpatient visits to private hospitals.

Implications for the private sector hospitals

All the factors state above will result in big shift of population to private sector hospitals. This will mean huge demand that private sector hospitals will need to satisfy. Our internal calculations suggest that the shift will result in, 62,000 additional beds. Even staff requirements will be much higher by 2025. The increased demand will mean 68,000 additional physicians, 28,000 additional technicians and 82,000 additional nurses. With KSA government insisting on increased Saudization of this sector, accessing talent will be a big problem for the private sector hospitals.

All these factors put together, will change the future landscape of the health care services in KSA with private players specially getting benefited from it. Healthcare industry is gearing up for the future challenge with private sector going to have a huge opportunity.

Conclusion

Despite the challenges, health-care demand and spending are expected to create a lucrative market in Saudi Arabia. Government has very clearly indicated that it wants private players to take a much higher participation in providing health care services. Insurance market is also expected to thrive over the next few years. Private hospitals will have to face challenges of resource crunch to scale up fast and differentiate themselves on services. The winners though will have huge opportunity to keep capitalizing on huge growth that the private sector hospitals are expected to witness starting in another 3-4 years from now.
