Hungry for private healthcare

# Burgeoning private healthcare demand

Led by the growing middle class, Indonesians are expected to gorge on more healthcare services than ever before, creating a delicious opportunity for private hospitals.

When Indonesians list their spending priorities in the coming years, hospital check-ups and medical treatments should climb their way to the top of the list. Increasing wealth and expanding health concerns, amongst other factors, will drive up healthcare expenditure in Indonesia. Private hospital groups are now racing to open new hospitals to serve more patients that will pay to either access higher quality healthcare services to avoid increasingly packed public hospitals.

**Jyoti Nagrani**, consulting analyst at Frost & Sullivan Asia Pacific, says the country's healthcare expenditure as a percentage of gross domestic product is expected to increase to 4.3% to reach US$50.8b in 2020. She reckons Indonesia is gearing up for a higher-earning population, with 4 out of 5 (over 80%) of Indonesians potentially belonging to the middle class by 2025. "The spending power will generate a huge spill-over effect for both domestic and the Association of Southeast Asian Nations (ASEAN) economies, creating enormous business opportunities including healthcare," says Jyoti.

The emergence of a more robust Indonesian middle class will provide a strong boost to the healthcare sector as it starts to tap into a large unpenetrated market, says **Samuel Sentana**, research associate at PT Deutsche Bank Verdhana Indonesia. "There is still much room for growth in the years to come," he adds, noting that Indonesia lags behind its regional neighbours when it comes to per capita spending on healthcare and hospital bed ratio. Indonesia's per capita spending on healthcare is at US$108, which is half of Thailand's and a quarter of Malaysia's. The country also has a much lower ratio of 9 hospital beds per 10,000 people compared to Thailand's 21 and Malaysia's 19. Sentana estimates there is still room for Indonesia, which has a population of 250 million, to add 250,000 additional beds to catch up to its peers.

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### Ageing population

Hospitals should also benefit from the secular trend of an ageing population, as the number of Indonesians aged 65 years and above is projected to rise by 23 million over the next decade. "We expect Indonesia's 65+ segment to become an increasingly important source of revenue for hospitals," says Sentana, "as senior citizens tend to require more medical treatment due to higher occurrence of non-communicable diseases, higher requirement for diagnosis and treatment, and longer duration of care."

Jyoti adds that there should also be a spike in aged care private investment as Indonesians aged 65+ years reach an estimated 5.4% of total population in 2017. Sentana reckons rising healthcare expenditure, which has posted a 15% compound annual growth rate during 2009 to 2013, will primarily benefit private hospital operators. "Growing affluence is expected to bolster demand for private hospitals due to its superior quality and as public hospitals get overcrowded due to the start of universal healthcare," says Sentana.

### Private hospital surge

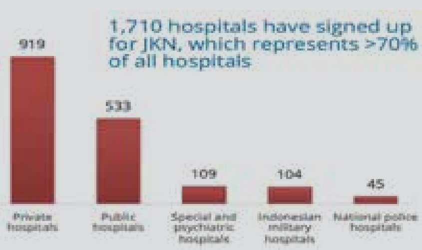
Large players with scale and brand recognition such as Siloam and Mitra Keluarga Group – the two largest private hospital operators by number of operational beds – stand to gain more from the anticipated market growth compared to smaller players that lack sufficient management capabilities and expansion capital. A Frost & Sullivan report adds that the demand for hospital beds, especially outside greater Jakarta area, cannot be addressed by public hospitals alone. Private hospitals that expand beyond the key cities can try to capture these new markets. "With higher spending power and willingness to pay higher premiums for higher quality, the middle class offers a huge untapped market for private healthcare providers," says **Pete Read**, CEO, global growth markets and director at MediWorld China.

Already, more foreign as well as local investments are pouring into the Indonesian healthcare sector, not only from private hospital groups, but also from unconventional industries wanting to diversify and partner with healthcare players such as technology companies, real estate firms, or conglomerates. Siloam Hospital Group, which operates 18 hospitals in the country, is aiming to more than double its hospital count to 40 by the end of 2017. Meanwhile, Kalbe Farma, one of the largest Indonesian pharmaceutical companies, plans to invest US$1.7m to build up to 25 private clinics each year in the capital Jakarta over the next five years.

Listed tin manufacturer and exporter Timah, for example, recently expanded to the hospital sector and has put up hospitals in the Bangka Belitung province. Likewise, state-owned Inda Karya, which specialises in consulting and construction management, is also planning to open a hospital in Makassar, the provincial capital of South Sulawesi.

Private healthcare providers are also benefitting following the launch of the National Health Insurance (JKN) as the government tries to provide universal healthcare to all Indonesians by 2019. Frost & Sullivan notes that there have been "teething issues" after the JKN implementation, including a concern over increasing

**Hospitals participating in JKN**




*Source: Global Growth Markets, Indonesia Ministry of Health*

Jyoti Nagrani

Pete Read

Samuel Sentana

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working capital requirements due to delays in receiving government reimbursement.

The rapid influx of patients, especially in public hospitals, is also putting a tremendous strain on the quality and quantity of human resources in Indonesia's healthcare sector.

### JKN's teething issues

There are only 0.3 doctors per 1,000 population in Indonesia in 2012, far lower than in Thailand (0.7), Malaysia (1.3), and Singapore (2.0). The number of nurses per 1,000 population in the country (1.4) is also significantly lower than Thailand (2.7), Malaysia (3.8), and Singapore (6.7). "The already scarce doctors, which are way below the global and ASEAN averages, will be put under pressure by the burden of the increasing number of JKN patients," says the Frost & Sullivan report.

"Besides shortages in quantity, there is also an uneven distribution of healthcare personnel as doctors and nurses prefer to practice in major cities where the potential of earning and career development is better compared to rural areas," it adds, although the establishment of the ASEAN Economic Community should improve the mobility of doctors from other ASEAN countries to Indonesia and help mitigate the shortage.

Despite its faults and birthing pains, the JKN represents a step in the right direction since it has helped raise demand for health services and improved the investment appeal of the hospital sector. In 2015, a year after the JKN was launched, the percentage of people who seek outpatient care increased by 15% to nearly 56 million members. JKN membership also jumped to 157 million in 2015 from 133 million in 2014.

"Whilst the pain experienced by the majority of Indonesians dealing with Indonesia's healthcare may continue to grow for some time, this is a necessary journey toward success and all the bumps can be read as signposts on the road that the nation must travel to higher-income status," says **Rendy Satria Dalimunthe,** a business tech consultant.

"Moreover, the spark generated by the government's boost to the healthcare sector is creating abundant opportunities for all to prosper. Substandard healthcare service in Indonesia represents investment opportunities, and records have shown surging demand for health and medical services since the JKN program rolled out," he adds.

Frost & Sullivan forecasts the pathology market to grow overall for non-communicable disease-related tests, with liver function and cholesterol tests being top clinical chemistry tests. "Indonesia is undergoing an epidemiological transition with the burden shifting to non-communicable diseases," says the report. "A high prevalence of cardiovascular, cancer, diabetes, as well as communicable diseases such as malaria and tuberculosis will drive the demand for healthcare services." Indonesians are heavy consumers of tobacco, with more than 60% of men aged 15 years and above reported as cigarette smokers, which has led to an increase in respiratory diseases.