

Private healthcare providers:
The prognosis for growth



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Introduction

History has shown that as the wealth of a country increases, so, too, does its demand for healthcare. This has held true for Southeast Asia over the past decade, despite the global downturn, with demand for more and better healthcare rising sharply along with the region's rapidly growing economies. Also adding to this growing need for healthcare is Southeast Asia's increasing urbanisation, aging population, and greater access to new medical technologies.

Yet the region offers a diversity of approaches for delivering healthcare services and meeting increasing demands. In some countries, such as Singapore, the private sector is a major healthcare provider. Others, including Brunei, Indonesia and Thailand, offer universal access to healthcare. And while several Southeast Asian countries have sophisticated healthcare capabilities, they are often available to only a select few. With investment in healthcare a growing priority among these economies, both public and private providers must consider the best methods of delivery if the demands of their populations are to be met.

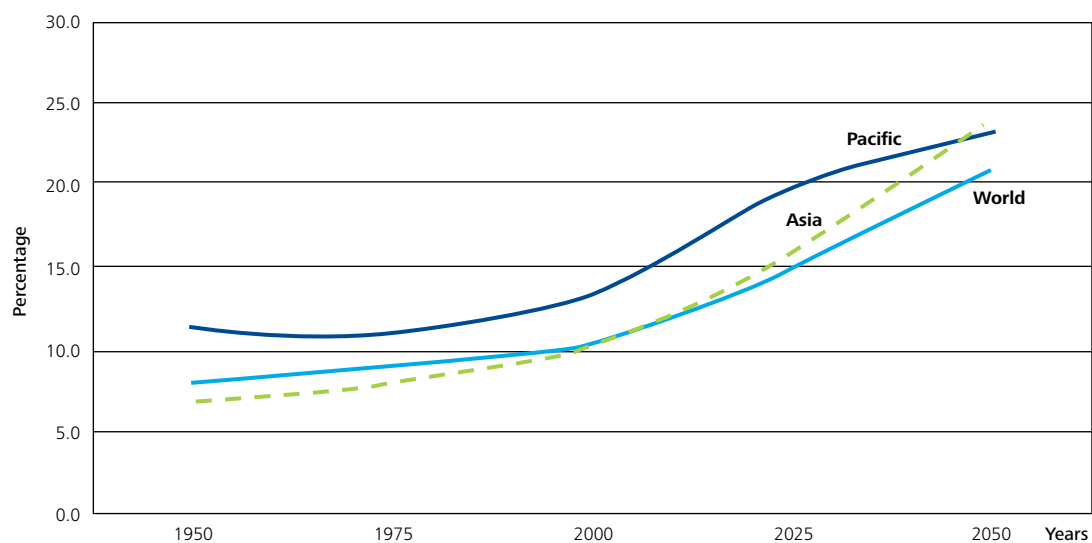


Changing needs, changing landscapes

Current lifestyles in Southeast Asia reflect a population that has more disposable income, engages in less physical work, and can afford more food, alcohol, and tobacco. As such, chronic diseases related to these lifestyle changes, including diabetes, cancer, obesity, and cardiovascular disease, are increasing significantly. Also, in line with global trends, Southeast Asia is seeing a shift from sickness care to healthcare, where the priority is placed on prevention rather than cure. With advancements in technology and communications becoming increasingly available, people have better access to information and are more demanding when considering healthcare options.

Additionally, even as the world's population is growing, an aging population is having a significant impact on healthcare delivery and contributing to an increase in total healthcare expenditure in the region. Asia's share of those aged 65 and above in the world population exceeded 50 percent in 2000, and is projected to grow to 61 percent by 2050.⁽¹⁾ As hospital use increases with age, healthcare providers need to equip themselves for this shift in demographics.

Proportion of population aged 60 and over



Source: Economic and Social Commission for Asia and the Pacific (UNESCAP), 2009

Public versus private sector

To meet the growing demands within the region, governments have been investing billions of dollars annually to improve their healthcare infrastructure. For instance, the Ninth Malaysia Plan, rolled out from 2006 to 2010, works toward “achieving better health through consolidation of services” with an emphasis on sustainability, upgrading and maintaining existing facilities and equipment, and improvement of healthcare. Similarly, Vietnam, as one of the fastest-growing economies in the world and with greater urbanisation than the rest of the region, is increasing its healthcare spending year over year. In an industry-wide study by Deloitte, the total healthcare spending in Vietnam is forecasted to rise to US\$6 billion in 2014, from an estimated US\$3.5 billion in 2009, with the government accounting for around 30 percent of the total expenditure.⁽²⁾

However, despite this influx of government funds, the future of healthcare in Southeast Asia seems to be moving more and more toward greater investment in private sector delivery. With the newly aware consumer and demands associated with age and increasing wealth, the pressure is rising on the supply of healthcare to improve both quantitatively as well as qualitatively. And with the growing realisation that the private sector can yield greater efficiency, most healthcare expenditures are now in the private sector. In fact, Southeast Asia records the highest private health expenditure of any region in the world: 63.1 percent of total health expenditures.⁽³⁾ In Vietnam, the increase in the private expenditure on healthcare is expected to vastly outpace that of the public sector due to poor state-level service provision.⁽²⁾

Country	2007 private health expenditure as a percent of total health expenditure
Brunei	18.5
Cambodia	71.0
China	55.3
Indonesia	45.5
Laos	81.1
Malaysia	55.6
Myanmar	88.3
Philippines	65.3
Singapore	67.4
Thailand	26.8
Vietnam	60.7

Source: WHO, World Health Statistics 2010, available at: <http://www.who.int/whosis/whostat/2010/en/index.html>

This focus is borne out by the investment community’s search for public-private opportunities. Now viewed as an encouraging investment prospect, the healthcare sector in Southeast Asia is seeing an inflow of funds in search of joint venture projects. Just recently, Malaysia’s Integrated Healthcare Holdings Ltd (IHHL) gained control of the Singapore-based hospital group Parkway, heading off a takeover offer by India’s Fortis Healthcare. IHHL, an arm of Malaysia’s sovereign fund Khazanah, which also controls other medical centres in Malaysia, is set to be a major player in the industry regionally, along with other giant conglomerates.⁽⁴⁾ The trend of hospitals growing and expanding through consolidation will most likely continue in order to take advantage of economies of scale.

Another example of a successful private and public sector collaboration is in Singapore, with its biomedical science initiative (BMS). BMS achieved a 13.5 percent compound annual growth rate (CAGR) on manufacturing outputs and 11.4 percent on value-add between 2000 and 2009. Toward 2015, the biomedical sector is expected to achieve a value-add of 8.5 percent CAGR over the next five years with the pharmaceutical sector as the key driving force.⁽⁵⁾

Diagnosing challenges

Globally, the challenges in healthcare include rising costs, quality issues, and waning consumer trust. Every component of operations, from upgrading facilities and keeping up with the latest innovations to attracting and keeping quality doctors and ancillary staff, also requires not only financing but professional management. In addition to these challenges, Southeast Asia must address issues particular to its populations, geographies, and markets. A recent Deloitte study states that there are only approximately 0.6 doctors per 1,000 people in Vietnam.⁽²⁾

One key driver of change that could alter the landscape for Southeast Asia's private healthcare industry is the impending liberalisation of the services sector in 2015 under the ASEAN Economic Community (AEC) agreement. With this agreement, investors will be able to hold over 70 percent stake in four services sectors - tourism, telecommunications, aviation and healthcare - in Malaysia, Singapore, Indonesia, Thailand, Philippines and Brunei. As such, private hospitals across the region

are diversifying their services portfolio to offer broader healthcare services to improve their competitiveness in advance of regional liberalisation. Bangkok Dusit Medical Services (BDMS), Thailand's largest private healthcare provider with annual revenues of US\$739 million, has aggressively invested in its highly-profitable non-core medical businesses (e.g., pharmacy, medical laboratory, x-ray, etc.), which is expected to expand upwards 700 percent from \$16.6 million annually to \$133.3 million in the future.⁽⁶⁾

In Malaysia, Sunway Medical Centre (SMC)'s expansion blueprint includes the building of radiotherapy and oncology facilities as the demand for radiotherapy services in the country significantly outweighs the available facilities needed to cope with the increasing incidence of cancer. Staying one step ahead, SMC is also actively involved in the creation of training facilities for medical students from its affiliate institution - the Jeffrey Cheah School of Medicine and Health Sciences, Monash University Sunway campus.



Urban versus rural

In Southeast Asia, the geographic vastness and diversity of some regions are posing challenges to the healthcare industry. In countries such as Thailand, Vietnam, and Indonesia, the well-equipped hospitals are in the urban areas, while rural residents have poor access to medical services.

Recent data from a Deloitte industry study show patients in Vietnam's rural areas spend, on average, less than one-third of the healthcare expenditure by the urban population. Moreover, poor households are twice as likely to self-treat than wealthier ones.⁽²⁾

Yet some healthcare providers, especially stand-alone smaller operators are fending off stiff competition from larger players to maintain cost-effective practices with an emphasis on quality, efficiency, timely care, and patient safety. Very often, these operators lack the scale and know-how to expand and have to consider consolidation to attract new investors or form partnerships to gain economies of scale.

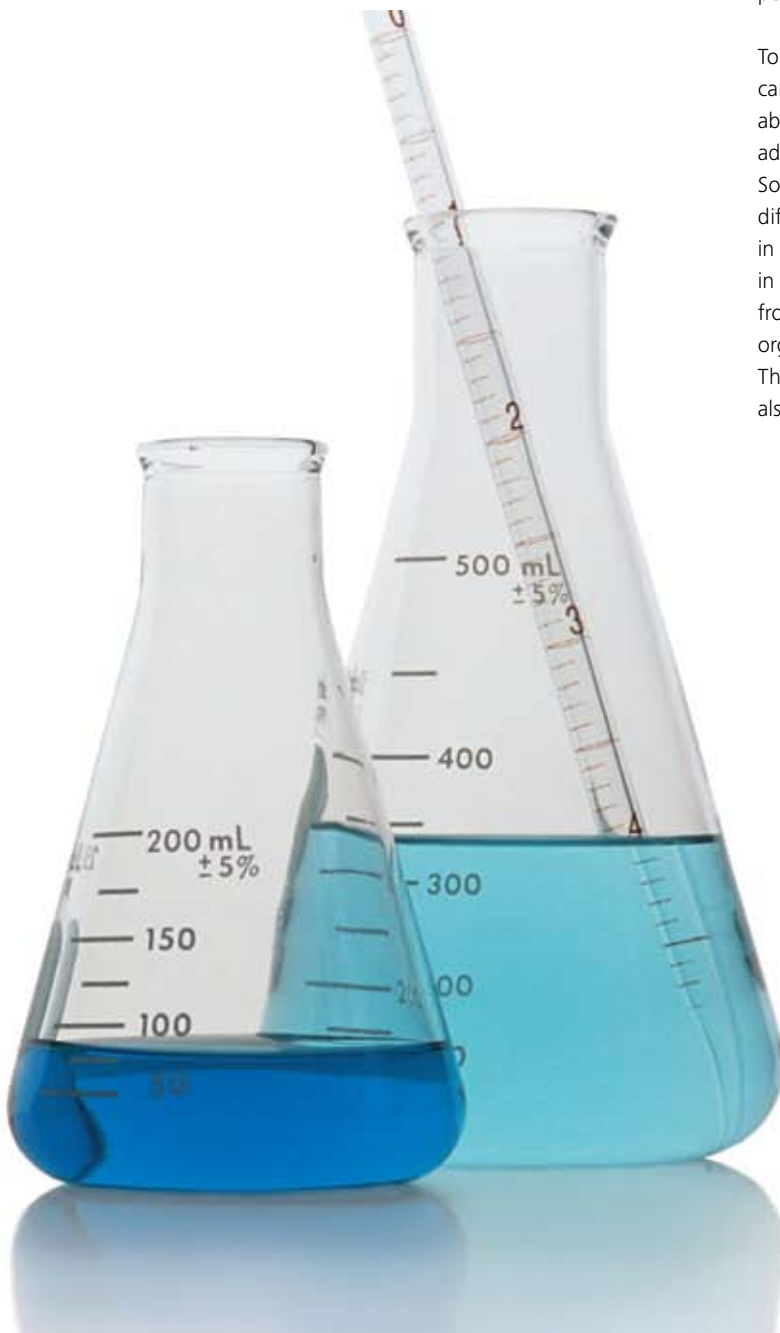
“Many stand-alone private hospitals in both Bangkok and the provincial areas have partnered with larger hospital groups as a means of staying competitive, including Smitivej and BNH which have become part of Bangkok General Group, as well as Vibhavadi and Sukumvit Hospitals which have joined the Ramkhamheng Group.”

- Dr. Nipit Piravej, MD of CCO-BCH, Thailand

More sophisticated consumers

With patients becoming more discerning, medical firms may need to raise their game in order to remain viable. This is because today's patients have greater access to information and are able to make comparisons more effectively, thus raising expectations regarding patient service standards. To address this, healthcare providers will need to leverage technology and streamline their processes to improve the patient experience. According to Spring Singapore, Singapore's health services industry generated US\$5.85 billion in operating expenditure in 2008. The value-add from these firms increased by 7 percent to US\$3.1 billion in 2008 from the year before.

To meet the challenges of providing better patient care at a lower cost, healthcare providers must also be able to integrate clinical data with their financial and administrative data. For many healthcare operators in Southeast Asia, the task of integrating data is simply too difficult, too time-consuming, and too expensive. Yet in order to stay relevant, they must consider investing in comprehensive IT systems that fully integrate data - from medical information and supply chain activities to organising human capital management (HCM) systems. These efforts will not only maximise cost efficiency but also provide the most satisfactory patient experience.



Medical tourism

The rise in medical tourism is also having an impact on healthcare delivery in Southeast Asia. A 2008 study by Deloitte Center for Health Solutions predicted that six million Americans alone will seek healthcare abroad by 2010. And from 2001 to 2006, the number of foreign patients tripled in Malaysia alone, with medical tourism generating US\$59 million in revenue.⁽⁷⁾ In 2009, 1.5 million foreign patients visited Thailand, a 138 percent increase from 2004, according to Thailand's Department of Health Service Support.⁽⁸⁾ This sector is expected to continue growing significantly in the near future with information readily available on the Internet as well as more affordable and accessible air travel.

A high-value sector that generates revenue for multiple industries, medical tourism is being targeted by more and more governments as part of their short- to mid-term national strategies to raise their countries' brand profile as well as increase tourism revenues. For example, Malaysia's government aims to increase its share of the health travel market (US\$100 million), which is significantly lagging other markets such as Thailand (US\$940 million) and Singapore (US\$1.4 billion).⁽⁹⁾ In light of Thailand's political issues, the Ministry of Public Health in Thailand is positioning the country as the "Medical Hub" of Asia and establishing a five-year master plan to generate US\$13.3 billion from foreign patients by 2014.⁽⁸⁾ Given the lucrative potential fees from these medical tourists, Singapore, Malaysia and India are also competing to establish themselves as medical hubs.

Cost comparison for selected surgeries

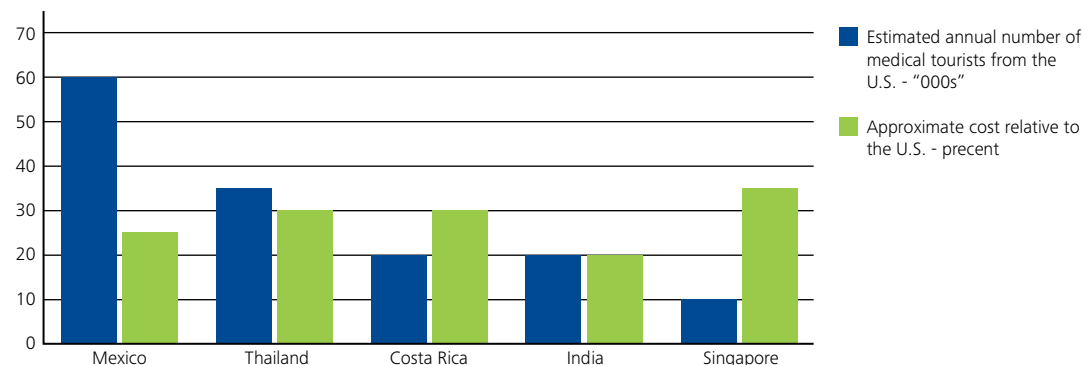
Surgery	U.S.	India	Thailand	Singapore
Heart bypass	\$130,000	\$10,000	\$11,000	\$18,500
Heart valve replacement	\$160,000	\$9,000	\$10,000	\$12,500
Angioplasty	\$57,000	\$11,000	\$13,000	\$13,000
Hip replacement	\$43,000	\$9,000	\$12,000	\$12,000
Hysterectomy	\$20,000	\$3,000	\$4,500	\$6,000
Knee replacement	\$40,000	\$8,500	\$10,000	\$13,000
Spinal fusion	\$62,000	\$5,500	\$7,000	\$9,000

Source: American Medical Association, June 2007, available at: <http://www.medicaltourism-guide.com/2008/04/03/cost-comparison/>

In order to position themselves in the forefront of this burgeoning industry, healthcare providers need to equip themselves with innovative facilities and cutting edge technology that are equivalent, if not superior, to the standards of world-class hospitals. Beyond procedures and equipment, hospitals also need to expand capacity and seek to optimise the overall experience for the patient, meeting international standards of luxury and comfort. DWP, a leading architecture and interior design firm with offices in Southeast Asia, India and the Middle East, saw its healthcare business in Southeast Asia grow by 30 percent in 2009. It has completed numerous redesigns of hospitals in Thailand, India and Vietnam, transforming once dull conventional medical facilities into luxurious centres that also meet the functionality requirements from doctors, patients and nurses.⁽¹⁰⁾

Medical tourism by country

Five of the countries visited most often for medical treatment



*Estimates are rough, most patients are not tracked

Source: Deloitte, Josef Woodman (consultant and author of Patients Without Borders), October 2009

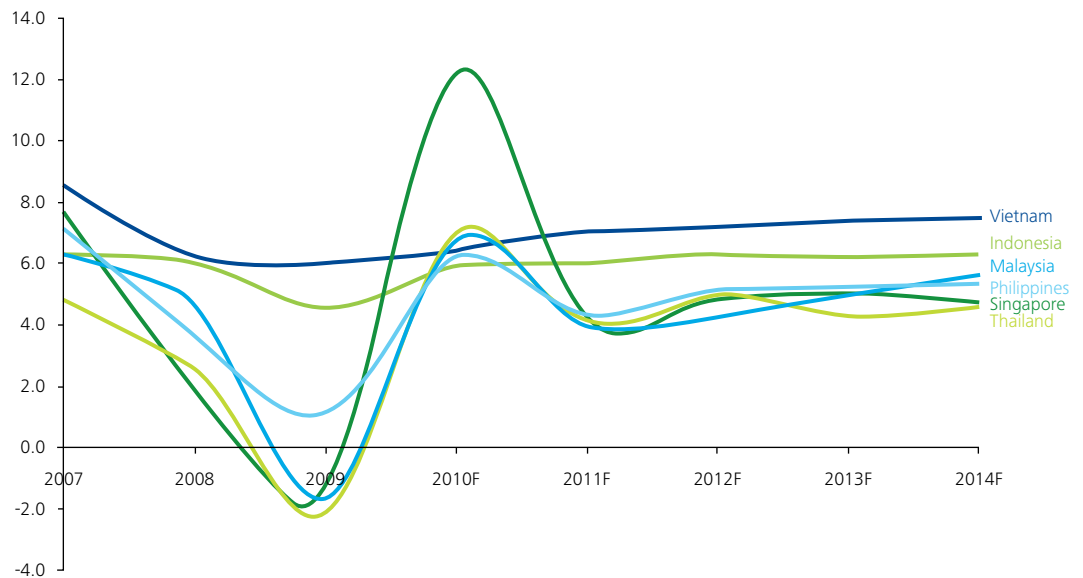
Impact of downturn

The financial downturn is already making private healthcare less viable for many people. The ultimate impact of the current crisis on health and healthcare will not be known for years to come, although it can be safely assumed that it will not be positive. During the 1998 Asian financial crisis, there was a significant shift of patients from private hospitals to public health facilities. Patient volumes, particularly for elective surgery, are already dropping in the United States.⁽¹¹⁾ The impact of the recent financial crisis in 2008-2009 saw significant pressure on medical tourism revenue in SEA.

Already some governments are encouraging inbound medical trends rather than the outbound to contain costs. Private healthcare providers have to prepare themselves for any eventuality that may negatively impact their profitability. With the increased reliance on medical tourism as a source of revenue, a global recession remains a significant risk factor for the industry as foreign patients from North America and Europe face difficulty in traveling overseas for both elective and non-elective medical treatment.

Real GDP growth projected to be robust in Southeast Asia

Economic growth – real GDP growth %



Source: EIU September 2010 Country Forecast reports

Working together for more sustainable healthcare

In analysing the future trends of healthcare in Southeast Asia, it is clear that sustainable healthcare systems and policies are important fundamental considerations for any government, as evidenced by larger allocations to healthcare. As governments seek to provide broader coverage in terms of reach and more comprehensive yet affordable quality healthcare, there will be an even greater need to introduce “user pay” systems to help fund ever-escalating national healthcare costs.

For healthcare in the region to be up-to-date and on par with the world’s best, providers need to focus on the consumer and, in particular, be competitive in terms of price and quality. To grow as medical hubs within their own countries, a coordinated effort will most likely be necessary, involving partnerships between private entities or public-private ventures. An example of this would be strategies that are now being put in place and coordinated at every level to mitigate the risks of breaches in security as well as epidemics and pandemics. Other collaborative efforts to address such issues like infrastructure may be needed as well without losing sight of the value of competition.

“The needs and delivery of an all-inclusive healthcare system in each country have to be carefully considered, balanced, and risk-mitigated to avoid politicising the issue.

Countries with compulsory workforce savings schemes such as Malaysia’s Employees Provident Fund (EPF) and Singapore’s Central Provident Fund (CPF), have always had a component available to its contributors for funding healthcare, insurance and medical expenditure.”

- Janson Yap, Regional Life Sciences & Healthcare Industry Leader, Deloitte Southeast Asia



Personnel and infrastructure

An integrated approach to building an efficient institutional system of healthcare would include ensuring that physical infrastructure is in place to deliver services. The provision of adequate human resources within the facility, especially the right mix of medical specialists, is also important as is the provision of incentives to these health personnel that adequately reflect their tasks and responsibilities.

A recent Deloitte study of the healthcare industry in Vietnam states that poor local infrastructure and inadequate equipment have a great impact on the provision of healthcare in developing countries. In Vietnam, the Ministry of Health provides healthcare services through a system divided into tiers, namely provincial, district, commune and village. Hospitals only exist at the provincial and district tiers with only the provincial tier providing specialist services. According to the WHO, more than one-half of the population is dissatisfied with the current healthcare system.⁽²⁾

Another area that may require attention is hospital management. Hospitals may have the doctors and specialists necessary but lack staff experienced in the actual day-to-day administration of a hospital. Healthcare providers may need to invest in training programmes to improve management expertise. They also have to raise their standards and seek international accreditation in order to be competitive, especially in sectors such as medical tourism.

“The trend towards consolidation into larger health provider groups will open up excellent opportunities for management development and a more cost-effective approach to training of nursing / allied healthcare personnel.

For some healthcare providers, especially stand-alone smaller operators, there also needs to be a focus on the basics – like maintaining a cost-effective practice with an emphasis on quality, efficiency, timely care and patient safety – while at the same time, incorporating best business practices and Information and Communication Technologies (ICT).”

- Dr. Chong Su Lin, CEO, Sunway Medical Centre, Malaysia



Competition and improving performance

Healthcare providers in Southeast Asia shouldn't be afraid of competition. Generally, competition has been beneficial, lowering costs and increasing quality. Market competition is also conducive to innovation and continuous improvement. These improvements can include the collection of basic clinical data and the ability to analyse it. To be a market leader requires in-depth knowledge and an understanding of the nature of healthcare services. Yet, in the region, some foundational processes that ensure the long-term success of healthcare endeavours are still somewhat lacking, specifically the effort to gather relevant data.

There is a need to begin providing reliable and valid data on quality, safety, and health outcomes in addition to pricing. For example, the 2010 Global Survey of Healthcare Consumers conducted by Deloitte's Center for Health Solutions provides healthcare providers with data to build better, more adaptive systems that raise the quality bar while containing costs. Survey results also show that operators should align financial incentives with optimal performance, an effort that requires investments in information systems, operational procedures, and oversight to meet the challenges facing them.

Operators should be able to compare the cost and quality performance of themselves versus the competition, as well as the behavior patterns of its local and regional customers. In order to attract the right patient mix, it's important to find out their needs. With such accountability, the industry as a whole will be motivated to improve responsiveness to consumer preferences, and consumers will also be empowered to choose freely between providers on the basis of cost, quality, timely access and availability as well as other desirable attributes.

Perhaps another area with much potential is that of e-health, which can incorporate healthcare practices supported by electronic and online processes. While still in its infancy stage, the potential for e-health applications, such as the sharing of medical information and online consultation, is enormous.

“A provider's brand, facilities and doctors may bring in patients, but are not enough to keep them unless it provides truly holistic and integrated care, including care beyond the hospital and in the patient's home.”

- Dr. Chong Su Lin, CEO, Sunway Medical Centre, Malaysia

A healthy prognosis

Southeast Asia is a significant market in the private healthcare sector. From smaller, individual hospitals to larger healthcare groups, the entire industry is experiencing rapid transformation. With an increase in population, higher disposable incomes, and changing lifestyles, there are opportunities for healthcare providers to tap. Many Southeast Asian countries also possess healthcare assets that have great potential for development. For instance, physician talent and supply in India is substantial, and the Philippines have an exceptional supply of trained nurses.

There are issues, however, that threaten the survival of healthcare providers in the region, including increasing competition, patient choice, stricter regulations, and scarce resources. There is also a heightened awareness of the responsibilities relative to operational and clinical risks. To survive, and indeed, prosper in this changing environment, providers should constantly evaluate what they need to do in order to produce actionable deliverables that impact decision-making and operational effectiveness as well as improved patient care.

Rather than worry about the impact of another downturn, healthcare providers can take pre-emptive measures to plan for the future. With the right set of tools, they can anticipate and manage risks in every area - from operations to legal to finance - in order to adapt to a fast-changing environment. They should also consider adopting a cross-functional approach to operations management. Deloitte's Five Pillars of Performance Improvement is one example, providing key strategies that help promote a sustainable path to long-term growth.

As healthcare systems in Southeast Asia develop and demand grows, providers will require healthcare intelligence to make good decisions about care delivery and resource allocation. With a framework in place and the know-how to turn challenges into opportunities, the future can be bright and the outlook healthy.

“I expect to see a higher rate of convergence and integration across the life sciences and healthcare value chain. This transformation will take place as governments execute strategies and reforms in areas including healthcare policies and regulations, investments in medical facilities and training, incentives for biotech research, and insurance and tax incentives.”

- Dr. Chong Su Lin, CEO, Sunway Medical Centre, Malaysia

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