THINK ACT

BEYOND MAINSTREAM

CAPTURING THE BUSINESS OF HEALTH

Opportunities and challenges for international healthcare providers in Indonesia

Roland Berger Strategy Consultants

SEPTEMBER 2015

THE BIG 3

1 267 million

people will need to be insured in Indonesia by 2019, when universal public healthcare is fully established.
p. 3

2 USD 363 bn

is the national healthcare expenditure expected to rise by 2025; a CAGR of more than 20% compared to 2010 (USD 20 billion).
p. 3

3 3

complexities are market diversity, the need for state-of-the-art medical care and sound investment decisions, which pose great challenges for foreign healthcare providers wanting a slice of the action.
p. 6

Regional revenue prospects p. 8

In the pink of health. Indonesia is the fourth-most populous country in the world, with a growing wealthy middle class and stable economic growth. Optimism abounds in the country and there is a desire to achieve basic rights for all – including a universal healthcare system.

Since January 1, 2014 Indonesia has been building a universal healthcare system, expected to be fully functional by 2019. By March 2015 more than 142 million people were already insured under the new system, called "Badan Penyelenggara Jaminan Sosial" (BPJS). The aim is for the country's entire population – an esti-
1 mated 267 million people by 2019 – to be covered by the BPJS by the time the system is fully implemented.

Indonesia's spending on national healthcare in 2010 was USD 20 billion. The government has set itself an ambitious economic goal of achieving USD 15,500 gross domestic product (GDP) per capita in 2025. In this scenario, national healthcare expenditure would be
2 breath taking, reaching USD 363 billion by 2025 – a compound annual growth rate (CAGR) of more than 20%. That would make Indonesia one of the largest healthcare markets in the world within ten years.

Despite the optimism, the universal healthcare coverage model by the government currently provides only the most basic health services. Indonesia is set to become one of the biggest economies in Asia – and as wealth increases, so too will demand for healthcare outside the BPJS. A B

Possible gaps between demand and supply has put Indonesia firmly on the radar of healthcare providers pursuing growth. Indonesians will continue to demand better healthcare, creating abundant opportunities for international players. But despite the vast opportunities, Indonesia is by no means an easy country to navigate. We identify three strong headwinds that foreign investors will have to push against if they choose to enter the country's healthcare industry.

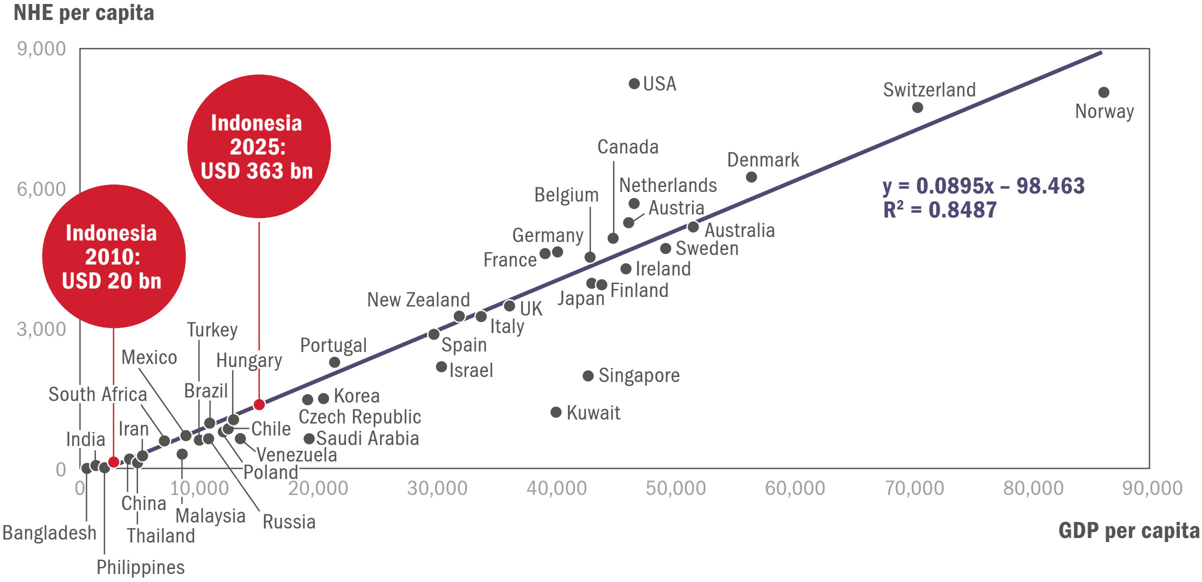
HEADWIND #1
Market diversity – Indonesia's health-care sector calls for a customized approach 3

The first complexity facing foreign healthcare providers is that Indonesia's market is fragmented. A one-size-fits-all approach will not work. The market is made up of many segments and regions that greatly differ from each other. That makes it highly unlikely that any single player will come to dominate the country's healthcare industry – or even specific subsectors within the market.

A

INDONESIA IS SET TO BECOME ONE OF THE BIGGEST ECONOMIES IN ASIA WITH A SIZE OF THE PUBLIC HEALTHCARE INSURANCE SYSTEM OF UP TO USD 363 BN BY 2025

Correlation between per capita gross domestic product (GDP) and national healthcare expenditure (NHE)

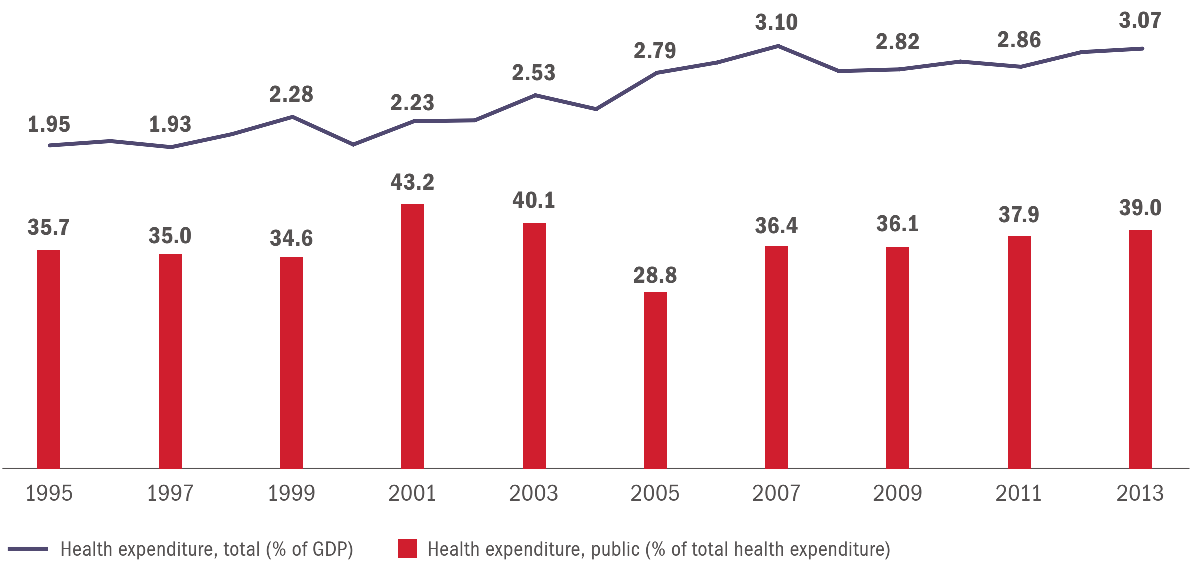


Source: Roland Berger

B

STEADY INCREASES UNDERSCORE OPPORTUNITIES FOR HEALTHCARE PROVIDERS

Indonesia's national medical expenditure vis-à-vis its GDP [measured in USD billions]



Source: Roland Berger, World Bank

Private vs. public marks the dichotomy of the Indonesian healthcare system

The government's plan is to provide universal healthcare system through a comprehensive public system. As in many healthcare markets around the world, a number of competing schemes currently coexist. Even within the public schemes there were major differences depending on people's jobs and income levels. The idea of the BPJS is to eventually consolidate these different schemes into a single structure.

Naturally, the objectives of private health insurance schemes differ from those of the BPJS. Primarily, private schemes aim to provide better, more comfortable medical facilities while making a profit, while the public schemes are not driven by margins.

This has implications for how healthcare is accessed by Indonesians with different types of health insurance. In terms of the number of hospitals – currently standing at 860 and 819 – the ratio between public and private is about equal. However, people who are covered under the BPJS can only access public clinics, hospitals, and a limited number of private hospitals at present. Because of the low payouts from the BPJS, private hospitals place restrictions on treating BPJS subscribers, with most barring access completely. As a result, publicly insured patients are forced to visit public hospitals in order to access full healthcare services. The Indonesian government aims to change this in the future, giving everyone with insurance access to all private hospitals.

A glance at the data sheds some useful light on the situation. C The figures speak for themselves: The private health insurance market is twice as big as the public insurance market and the expenditure per person per annum on private healthcare is eight times higher. That doesn't necessarily mean that the quality of the medical treatment itself is much better in the private sector – rather that people with private health insurance pay a sizeable premium for the superior comfort as well as speed and level of service they enjoy.

As the BPJS expands to include more of the general public, it will inevitably gain in significance. The increase in the number of subscribers may mean that each subscriber spends less per hospital visit, given that coffers will increase with each incremental subscriber. However, that said, because the public sector subscribers are primarily from low-income groups and the subscription fees correspond with their income levels, total reserves to cover public subscribers will not spike in size.

Subscribers to public and private schemes inherently have different patients with contrasting income levels. The schemes have different business models, and this will remain in the medium term. Potential new entrants into the market must bear this in mind.

Regional differences show great disparities

Besides differences between public and private insurance, there are differences in healthcare standards between different urban areas across Indonesia. The Indonesian healthcare industry is not homogenous. Great disparities exist between Jakarta and other cities in terms of access to medical care, medical equipment, facilities and pharmaceutical products.

Jakarta offers many advantages for patients. The city has many medical facilities and providers and a wide range of medical and pharmaceutical products are available. This is a result of a disproportionate number of foreign healthcare providers entering the Indonesian market through Jakarta, expanding outwards from there. In the city, competition is fierce, with some hospitals offering facilities and equipment on a par with developed nations in order to compete.

Outside Jakarta the picture is not so rosy. In provincial cities, for example, there are huge shortages of manpower, equipment and funds for medical products, with a major reason being that many of the foreign healthcare providers do not have presence beyond Jakarta. A key example of a company that has started operations in Jakarta but has restricted its presence to the capital city, is Philips Healthcare. Even though the Dutch multinational has long had links to Indonesia, it only currently has a wholly owned office in Jakarta, but not elsewhere in Indonesia.

So should healthcare providers focus only on Jakarta? On the contrary! Our research shows that companies should look at a range of options, even considering entering the market from areas other than Jakarta. Some of the islands of Indonesia are economic powerhouses. D E Sumatra Island alone has a comparable gross regional domestic product (GRDP) to that of Vietnam's GDP. Sulawesi has a GRDP just slightly lower than Myanmar's GDP. Other islands also have key industries that contribute to Indonesian GDP, such as Riau province (electronics) and the East Kalimantan province (mining).

Lack of trust in the healthcare system

Indonesia suffers from outbound medical tourism, whereby Indonesians travel abroad for healthcare. One of the primary reasons for this is that Indonesians do not fully trust their own healthcare system. Singapore, Thailand and Malaysia offer many facilities for medical tourists, attracting rich Indonesians. Indeed, it is estimated that some 600,000 Indonesians travel overseas to get better medical treatment annually. Singapore attracts the wealthier segment, who spend around USD 3,500 annually per person, while those travelling to Malaysia (mainly Penang and Kuala Lumpur) spend an annual USD 200 per patient. F

But it's not just about trust. Medical tourism is also driven by the desire for better medical service. As the middle class grows and Indonesians become wealthier, the number of medical tourists will steadily increase unless the quality of service provided locally meets people's demands. This creates an opportunity for foreign players to open first-class medical facilities in Indonesian cities other than Jakarta in order to lure medical tourists and capture revenues locally.

HEADWIND #2
3 State-of-the-art medical care – The most advanced equipment is needed

A common misconception about Indonesia's healthcare industry is that it is an underdeveloped market with basic needs. Some decision makers believe that operators and pharmaceutical companies do not need to invest in high-end products or deliver expensive medication to customers, as it won't sell nor is it in demand. This misconception may stem from the fact that there are many generic pharmaceuticals in Indonesia and only limited demand for expensive new drugs.

This inaccurate belief has prevented some foreign enterprises from considering entry into Indonesia. Amgen and Daiichi-Sankyo for instance, both of which are in the top 25 global pharmaceutical companies by sales, do not sell products Indonesia despite the market's large revenue potentials for both companies.

In reality however, Indonesia desperately needs to offer sophisticated medical care for citizens and must leapfrog technologies in its healthcare systems, even if there is a large price tag involved. The current system must overcome its lack of staff, equipment and funds and provide affordable yet comprehensive medical care for the whole population. Deploying the right technology could significantly defray the cost of delivering healthcare to the country's citizens and increase subscription to the medicine or service.

One such example is the provision of medical consultation via smartphones and the Internet to patients in remote areas. Other services include promoting mobile commerce for medical and pharmaceutical products and deploying home care to relieve pressure on hospital beds.

The delivery of online healthcare and "e-health" is not restricted to developed countries only. Mexico's "Medical Home" service, for instance, provides consultations with doctors via mobile phone for a fixed amount of just USD 5 monthly. The service provides a medical infrastructure for people living in distant provinces, and people with no medical insurance. Another example is Apollo Telehealth Services, which is an affiliate of India's largest hospital group, the Apollo Group. It provides remote medical care to patients living in rural areas. The service has recently been expanded to patients in Yangon, Myanmar. Indonesia's healthcare industry, which has much in common with that of Mexico and India, could learn from these systems and apply similar models at home.

The need for advanced medical systems is not just driven by patients, either. Medical providers such as doctors are also demanding such conditions. The lack

C

TWICE AS BIG. COFFERS FOR PRIVATE HEALTH INSURANCE MARKET IS DOUBLE THAT OF PUBLIC HEALTH INSURANCE

All three schemes have merged under the BPJS umbrella, though there is clear segmentation between public and private

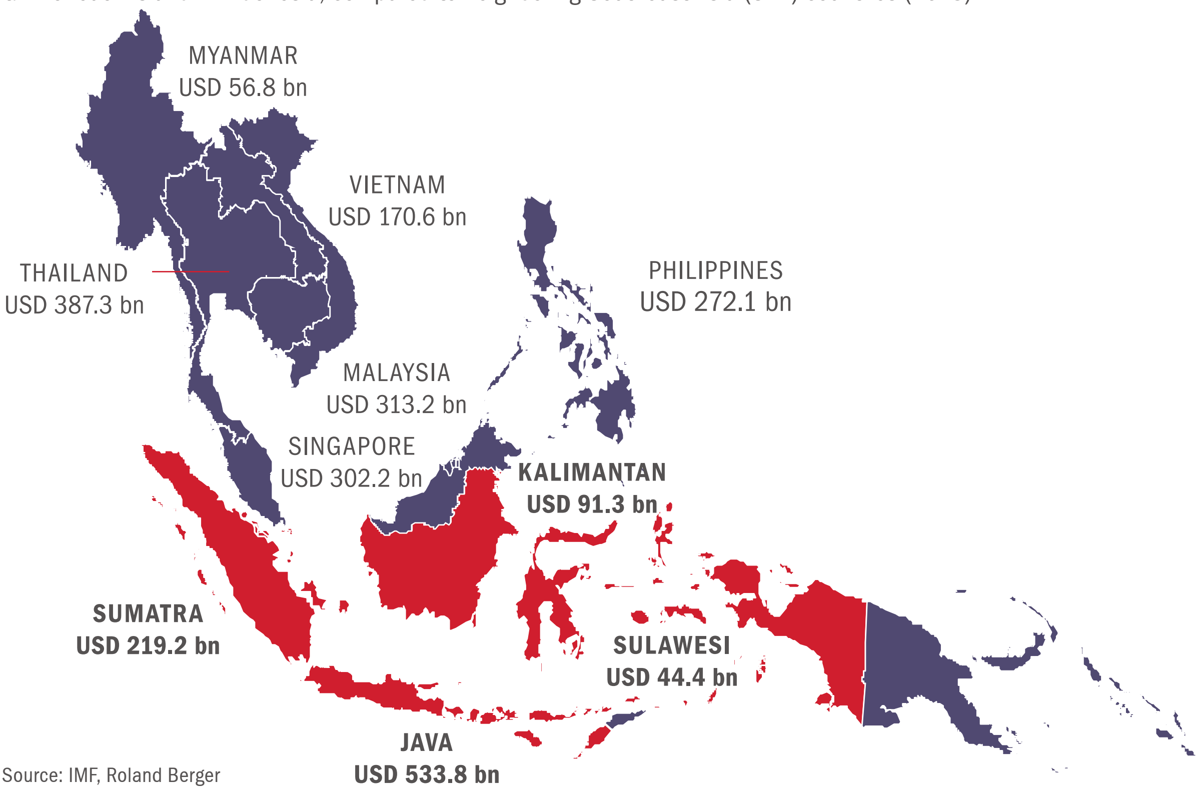
BPJS

Scheme	Primary subscribers	Access	Number of sub-scribers (2010)	Total market size	Expenditure per subscriber p.a.
Jamkesmas (public scheme)	Health insurance for poorer segments of society	Mostly public hospitals; a few private hospitals	93.8 m	USD 8 bn	USD 84
Askes (public scheme)	Health insurance for public servants	Mostly public hospitals; a few private hospitals			
Jamsostek	Health insurance for private enterprise employees, merged with BPJS on January 1, 2014	Access to all hospitals	23 m	USD 15.2 bn	USD 660

D

GDP ON INDONESIA'S MAIN ISLANDS AND NEIGHBORING COUNTRIES

GDP of each island in Indonesia, compared to neighboring Southeast Asia (SEA) countries (2013)



Source: IMF, Roland Berger

E

CLEAR REVENUE OPPORTUNITIES LIE BEYOND JAKARTA

GDP of Indonesia provinces of GRDP and SEA neighboring countries

		Population [Thousands]	GRDP [2013, Rp. m]	GRDP per capita [2013, Rp. m]
Sumatra	Aceh	4,494	103,045	22.9
	Sumatera Utara	12,982	403,933	31.1
	Sumatera Barat	4,847	127,100	26.2
	Riau	5,538	522,241	94.3
	Jambi	3,092	85,558	27.7
	Sumatera Selatan	7,450	231,683	31.1
	Bengkulu	1,716	27,388	16.0
	Lampung	7,608	164,393	21.6
	Kep. Bangka Belitung	1,223	38,935	31.8
	Kepulauan Riau	1,679	100,310	59.7
Jawa	DKI Jakarta	9,608	1,255,926	130.7
	Jawa Barat	43,054	1,070,177	24.9
	Jawa Tengah	32,383	623,750	19.3
	DI Yogyakarta	3,457	63,690	18.4
	Jawa Timur	37,477	1,136,327	30.3
	Banten	10,632	244,548	23.0
Kalimantan	Bali	3,891	94,556	24.3
	Kalimantan Barat	4,396	84,956	19.3
	Kalimantan Tengah	2,212	63,515	28.7
	Kalimantan Selatan	3,627	83,362	23.0
	Kalimantan Timur	3,553	425,429	119.7
Sulawesi	Sulawesi Utara	2,271	53,401	23.5
	Sulawesi Tengah	2,635	58,641	22.3
	Sulawesi Selatan	8,035	184,783	23.0
	Sulawesi Tenggara	2,233	40,773	18.3
	Gorontalo	1,040	11,752	11.3
	Sulawesi Barat	1,159	16,184	14.0
Eastern Islands	Nusa Tenggara Barat	4,500	56,278	12.5
	Nusa Tenggara Timur	4,684	40,465	8.6
	Maluku	1,534	13,245	8.6
	Maluku Utara	1,038	7,725	7.4
	Papua Barat	760	50,909	67.0
	Papua	2,833	93,137	32.9

Source: Roland Berger, Indonesia Bureau of Statistics of advanced medical systems is one of the reasons why many doctors from all over Southeast Asia move to advanced medical environments such as those offered by Singapore, where they can conduct leading experiments in the world's most up-to-date facilities. It is estimated that half of the medical professionals at Mount Elizabeth Hospital in Singapore come from abroad. This brain drain has a clear adverse effect on the local healthcare industry. There are severe shortages of local capable professionals in the country. The Siloam Hospitals Group – a big hospital operator in Indonesia – has already acknowledged that it will need to hire thousands of doctors and even more nurses than that, to cope with demand and for its own expansion plans.

In order to attract the right personnel, a new healthcare provider hoping to enter the Indonesia market must ready medical technology and equipment that is relatively new and sophisticated. They must consider that patients are seeking out the best medical professionals within their means. Already, there is significant shortage of qualified professionals. According to EXIM Bank Malaysia, physician density in Indonesia is 2.88 per 10,000 inhabitants. This is significantly lower than the world average of 14 physicians per 10,000 inhabitants, which lengthen wait times for patients.

HEADWIND #3
Sound investment decisions are required

3

One of the most important issues when it comes to investing in a foreign country is the expected return on investment (ROI). Despite all the hype about Indonesia, its healthcare spending per capita remains low compared to its more advanced neighbours such as Malaysia and Thailand. According to the OECD, even though its CAGR (2009-2012) is the highest amongst its Southeast Asia peers, it remains in the lower half of healthcare spending per capita in the region.

F

INDONESIANS SEEKING MEDICAL CARE ABROAD

Number of medical tourists will steadily increase

	Public	Private	Overseas Malaysia	Singapore
Number of hospitals	Puskesdes: 23,000 Puskesmas: 9,000 Public hospital: ~800	~850		
Type of medical insurance	Jamkesmas Askes (Jamsostek) BPJS	Jamsotek Private Insurance	Private Insurance	
Total patients in each category	93,800,000 (2010) 160-177 million more people expected to be insured after full coverage rollout	x 4.1 23,000,000	300,000	226,000
Annual medical costs [2011, USD m]	80,000	152,000	500,000	8,000
Per capita healthcare costs [2010, USD]	84 USD	x 7.8 660 USD	200 USD	3,500 USD

Source: Roland Berger

Foreign investors should also be aware that Indonesia has an array of regulations and restrictions relating to its healthcare industry. For example, it is forbidden for foreign-owned enterprises to operate a general hospital; only specialist hospitals can be operated by foreign firms. This naturally restricts the number of target patients. Foreign providers must take a very close look at the commercial viability of their proposed operations.

These restrictions don't just apply to hospital providers either. Foreign ownership of pharmaceutical companies is limited to 85%. An additional requirement is that pharmaceutical companies must begin manufacturing in Indonesia within five years in order to access the country's markets. Thus, to sell in Indonesia in the long term, pharmaceutical companies must build their own manufacturing facilities or form partnerships with manufacturers that already have factories in Indonesia. Of course, if there are limited sales volumes, companies will need to think seriously about whether establishing a factory in Indonesia is worthwhile in the short to medium term. Plus, pharmaceutical companies must examine whether the products they manufacture in Indonesia will be suitable for export or not.

And there's more. Producing pharmaceuticals in Indonesia is not just about building a factory there: You also need a reliable supply chain. Companies need to examine carefully how they can optimize their supply chain across Southeast Asia as a whole. In some cases, they may find it more profitable to build manufacturing facilities not in Indonesia but elsewhere in the region.

Catching the wave: Advice for new entrants to the Indonesian healthcare market

We have seen how foreign healthcare providers face three strong headwinds if they choose to enter the Indonesian market: the diversity of the local market, the need to provide state-of-the-art medical care, and the importance of ensuring sound investment decisions. To overcome these three challenges, companies must look at the bigger picture and consider all the market factors before making an investment decision. The constantly changing regulations that affect the Indonesian market make it particularly difficult to assess future economic viability.

In light of this, we consider it paramount to create several different plans for different scenarios. Having various options up their sleeve will enable management to react with dexterity and swiftness to any unexpected changes. At Roland Berger we have worked with many healthcare companies operating in Indonesia or considering entering the market. Our work has helped us identify three key success factors that companies must consider when developing a strategy.

1. DEFINE YOUR TARGET SEGMENTS

Indonesia is not a "single" market per se. There are many opportunities to consider and revenues to be captured. To be successful, companies must define their target customers by carefully analyzing the situation with regard to patients, hospitals, physicians and policymakers.

2. IDENTIFY AND DEVELOP RELATIONSHIPS WITH RELEVANT STAKEHOLDERS

Identifying and building rapport with the right stakeholders will help not only with market entry but also accelerate market expansion, especially if the target is public-sector stakeholders and hospital operators who deal with BPJS subscribers.

3. FIND A WIN-WIN SOLUTION

Indonesia has many unmet medical needs. Foreign players tend to focus on the segment that they consider most profitable. But at the same time they should demonstrate commitment by improving overall Indonesian healthcare, even if this means smaller margins. In the longer term, this win-win approach will create a stronger bond with Indonesian stakeholders who are looking for companies that genuinely want to help establish a credible Indonesian healthcare service.

Is the game worth the candle? We believe it is. Indonesia's business environment is complex, but healthcare providers have an opportunity to catch the wave of growth that will accompany the establishment of universal healthcare. It is important for firms to start early and gain a strong foothold, as well as investing for long-term profits. For international healthcare providers looking at building or strengthening their presence in Indonesia, now is the moment for action. ◆

ABOUT US

Roland Berger Strategy Consultants

Roland Berger Strategy Consultants, founded in 1967, is the only leading global consultancy of German heritage and European origin. With 2,400 employees working from 36 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 220 Partners. **WWW.ROLANDBERGER.COM**

Further reading

SOUTHEAST ASIA – THE NEW FRONTIER FOR HEALTH INSURERS

Demand for healthcare is growing rapidly in Southeast Asia. Overall health expenditures increased two and a half times between 1998 and 2010, reaching nearly USD 68 billion. Private insurance accounts for 4% of this total. Three factors are driving this development: steady population growth, steep increases in medical costs, and – most importantly – increases in per capita consumption of healthcare services.

EVOLUTION OF MEDICINE

The health market has developed into a major growth industry, but is it possible to make medical progress available to everyone? Research continues into new diagnostic methods and therapies, but are we giving the same priority to developing healthcare and financing systems? And who will look after patients' interests with medicine becoming more complex? In addition, needs and standards vary hugely in different regions of the world.

GLOBAL TOPICS: 8 BILLION

In developing countries, fewer than half of diabetes sufferers are diagnosed. Yet by 2030, 160 million people across China, India and Indonesia are projected to suffer from the disease. Diabetes remains the drug industry's fastest-growing market, with projected 2030 sales of USD 490 billion – about half of which will come from emerging markets.

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