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Healthcare Trends in Saudi Arabia

KPMG in Saudi Arabia

Why, Healthcare Sector?

Because it is highly visible on the target list of investors.

Saudi Arabia has remained relatively unscathed during the current global financial crisis. In part, the country's financial conservatism played a key role in maintaining stability during the turbulence. Investors took note and as a result, Saudi Arabia has become an increasingly attractive destination for investment. Among the attractive investment opportunities, Healthcare sector is highly visible on the target list of investors.

We identify four key trends that are expected to shape the future of the Healthcare sector in the Kingdom.

1. Increasing lifestyle diseases
2. Demand for quality in care
3. Shortage of qualified professionals
4. Changing policy landscape

Increasing lifestyle diseases: The onset of lifestyle diseases e.g. obesity, diabetes, cardio-vascular, osteoporosis, and depression, increases as nations

experience economic progress.

However, the lifestyles remain at the original levels and do not become any healthier. In Saudi Arabia, despite 34% of population below the age of 15, cardio-vascular diseases are expected to become a menace to the Saudi Arabian society. The key drivers for this trend re increasing prevalence of smoking, rising obesity influenced by fast-food culture, and a sedentary life-style. It is estimated that Saudi residents inhale 40,000 tons of tobacco in 15 billion cigarettes annually. Despite government's keen focus on raising awareness of the consequences of smoking, the problem has proved intractable so far. Nothing exemplifies the severity of the problem more than a Saudi charity's offer to sponsor marriages if the groom gives up smoking. The prevalence of smoking is further exacerbated by a sedentary life-style.

According to study, a whopping 98 of every 100 females and 96 of every 100

males did not have enough physical activity to prevent diseases. As a result, one in three persons is overweight and one in five is obese. This trend will result not only in an increasing demand for both specialized care but also for preventive care (both medical and educational initiatives).

Demand for quality in care: Residents of the country will no longer be satisfied with going abroad for all major treatments. There will be an increasing demand for quality healthcare within the country. While initially the trend will be more visible in the major cities, it will become more wide-spread as the population and education levels increase. In addition to a demand for higher quality, consumers will also demand more consistency in services. This consistency in services will be guided by further improvements in primary care. In a recent survey conducted by the Ministry of Health, 23% consumer wanted to

address the poor services at primary health centers. Another study found that majority of primary care physicians never had any educational leave or have access to local/international periodicals. Consumers will demand high quality not just from the physicians but also from hospital and clinic staff. This change in consumer expectations will spawn a need for professional management at healthcare facilities. Well-managed facilities will be able to differentiate themselves in the marketplace and will be able to gain market share from sub-optimal facilities. In addition, with an increase in the population above age 65, the demand for old-age care will increase. Given the cultural foundations of the country, this demand will not result in old-age homes but will require additional and specialized medical facilities and qualified professionals.

Shortage of qualified professionals: The Kingdom has acute shortage of skilled medical professionals. The shortage covers the entire spectrum – from skilled surgeons to paramedics. While it is easier to build new hospitals, it is more difficult to entice highly qualified people to provide services in the hospitals. An even larger issue is to fill these highly-skilled roles with Saudi nationals. According to the Ministry of Health, only 20% of the 4500 physicians are Saudi nationals. There is increased activity and expected growth in the number of educational institutions providing medical certifications.

However, the Kingdom will still have a long way to go before it starts to train highly skilled surgeons and specialists within the country. The establishment of the multi-billion dollar KAUST is a significant step in the right direction. Initiatives such as KAUST will help the Kingdom transition to the only model that is sustainable in the long-run – train Saudi nationals in highly skilled professions and reduce dependence on expatriate workers. A silver-lining in this otherwise critical situation is a potential reverse immigration of Saudi doctors trained abroad. These doctors will recognize the relatively more attractive opportunities offered within Saudi Arabia compared to other options – especially during the current global financial crisis.

Changing policy landscape: The government of Saudi Arabia has devised a three-pronged approach to initiate policy reforms. These reforms are focused on three key healthcare areas – management, manpower, and financing. The government has been judicious in taking a phased approach to implementing the reforms. For instance, the proposed reform in financing healthcare includes the application of a cooperative healthcare system. This reform mandates purchase of cooperative insurance for all expatriate employees of firms of a certain size. The government will evaluate the scheme in three years and formalize the insurance system based on lessons

from phase I. As insurance becomes more prevalent, the demand for services will increase as people will be less willingly to wait even for elective treatments. As the industry matures and becomes more market-driven, it will inevitably face the two classic problems with insurance – adverse selection and moral hazard. In adverse selection, unhealthy people are more likely to purchase health insurance as they expected higher medical bills. In the case of moral hazard, people might embrace riskier behaviour after getting the insurance as they are less worried about paying the bills. Insurance companies will have to walk the tight line between complying with regulations while protecting their profit potential.

Conclusion: As with any evolving sector in a developing economy, Healthcare in Saudi Arabia presents opportunities and challenges. There are clear opportunities for high-quality healthcare facilities, educational institutions that can train skilled professionals, and trained doctors and technicians. The government has demonstrated its commitment to the sector by allocating 9% of the 2009 budget to health and social development. However, investors will need to implement business models that are flexible and can adapt to the changing policy landscape. Furthermore, the business models will need to be customized to cater to the unique cultural and political fabric of the country.

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