Healthcare Overview

With an estimated population of 26 million residents with an annual growth rate of 2.2%, the Saudi Arabian healthcare sector caters to a rapidly growing population and the concurrent increasing demand in the healthcare sector.

Overall the supply of healthcare facilities struggles to keep pace with the burgeoning population, a situation recognised by the Government who have recently introduced initiatives to encourage the private sector to match the shortfall and benefit from this potentially lucrative sector.

The Healthcare sector in the Kingdom of Saudi Arabia is primarily managed by the Government through the Ministry of Health (MOH) and number of semi public organisation who specifically operate hospitals and medical services for their employees. In addition, private sector operators are also playing a key role in providing quality healthcare services in the Kingdom.

The Saudi Healthcare sector is structured to provide a basic platform of healthcare services to all, with specialised treatment facilities offered at some private and public hospitals. Colliers International Healthcare Overview provides a brief snapshot of the key factors impacting the Saudi Healthcare sector and the future outlook.

Demographic Overview of the Kingdom of Saudi Arabia

- KSA has the largest and fastest growing population in the GCC. The Central Department of Statistics and Information (“CDSI”) estimates the total KSA population will reach 31.6 million by 2016, of which 22.8 million will be Saudi nationals (Colliers estimation for 2016 is 30 million out of which an estimated 22 million will be Saudi). The expanding population, coupled with rising average income, will continue to feed demand for infrastructure and services, particularly in energy, water, telecoms and technology, housing, health, education, and financial services (Refer to Exhibit 1).

- Males in Saudi Arabia constitute 55% of the total population, the majority of which belong to the 30-34 years of age category, a category between Generation X (1965-1980) and Generation Y (1981 and thereafter). The population below the age of 34 years accounts for close to 60% of the total population in the Kingdom.

- The rapidly growing young population is one of the key factors driving demand for the real estate/ healthcare sectors and the reduction in the average family household size.

- As of 2009 (the latest available governmental statistics), the labour force comprises 53% of Non-Saudi and 47% Saudi Nationals.

The multiplier effect of Saudization will likely improve Saudi employment statistics.
Key Players

Ministry of Health ("MOH"): Approximately 60% of all hospitals within the Kingdom are owned and operated by the MOH (Refer to Exhibit 2). These hospitals provide basic healthcare services, as well as, in certain cases, specialised facility centres. MOH facilities are increasingly being made available mostly to Saudi Nationals only with accessibility to expatriates in majority of cases restricted to specialised treatments except in rural areas where private sector facilities are not present. With MOH facilities slowly being restricted to only Saudi Nationals, the 5.5 million of expatriates (half of which are concentrated in Riyadh and Jeddah) within the Kingdom are being forced towards the private healthcare sector.

Other Governmental Organizations: Health treatment in other government and quasi organizations is effectively free for employees, typical organizations would include The National Guard, Ministries of Defence and Aviation and the Royal Commission.

Private Sector: Historically most of the outpatient treatments were provided by the private sector. However, increasingly inpatient treatments are also being provided by the private sector due to the high demand and the restrictions placed on entry to MOH facilities.

With access increasingly limited to MOH hospitals, most of the expatriates seek treatments at the growing number of private hospitals.

Budget Allocations

Between 2005 and 2008 Saudi Arabia allocated approximately SAR 23.5 billion per annum with a cumulative amount of SAR 94 billion investment in the healthcare sector. However, in 2010 and 2011 there was a substantial increase in the healthcare budget which increased from SAR 30 billion (6.3% of total Government Budget) in 2008 to SAR 52 billion in 2009 (11% of total Government Budget) and to SAR 61.2 billion in 2010 (11.3% of total Government Budget). The budget allocation was further increased to SAR 68.7 billion (11.8% of total Government Budget) in 2011, a cumulative allocation of SAR 113 billion in last two years compared to SAR 94 billion in the previous four years. (Refer to Exhibit 3).

However, in terms of percentage spent on healthcare as a percentage of GDP, Saudi Arabia still is behind many developed nations in the world (Refer to Exhibit 4).

In order to maintain the network of healthcare facilities, the Saudi Government has implemented a two tier health service plan; Tier 1 includes a network of primary healthcare centres and clinics established throughout the Kingdom. These clinics and centres are backed by a network of secondary care hospitals and specialized treatment facilities (Tier 2) located mainly in major urban areas across the country.

Moreover, comparing the healthcare indicators of Saudi Arabia to other developed countries such as the US, UK and Germany demonstrates there is a shortage of doctors, nurses and beds in Saudi Arabia. The shortage is prevalent across all GCC countries, however, Saudi Arabia has the lowest number of beds, nurses and doctors per population within the GCC (Refer to Exhibit 5).

To address the rapidly increasing demand for health services, recognised as a crucial issue within the Government - there are plans to build 12 new hospitals. This is in addition to 120 currently under construction which when completed will add a further 26,700 beds or an increase of almost 68% over the current supply. Additionally the Government is also seeking to improve access to specialist care in different regions of the country.

---

Exhibit 3: Healthcare Budget in the KSA (SAR billion)

Source: Ministry of Health 2009, Colliers International Healthcare (CIH) 2012

Exhibit 4: Healthcare spending as % of GDP


Exhibit 5: KSA & International Comparative Analysis / 1,000 Persons

Source: Ministry of Health 2009, CIH 2012

Exhibit 6: Key Industry Indicators (2009)

<table>
<thead>
<tr>
<th>Industry Indicators</th>
<th>Saudi Arabia</th>
<th>Riyadh</th>
<th>Jeddah</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private hospitals</td>
<td>125</td>
<td>27</td>
<td>31</td>
</tr>
<tr>
<td>MOH hospitals</td>
<td>244</td>
<td>44</td>
<td>12</td>
</tr>
<tr>
<td>Doctors</td>
<td>18,086</td>
<td>3,805</td>
<td>1,593</td>
</tr>
<tr>
<td>Nurses</td>
<td>44,719</td>
<td>8,652</td>
<td>3,637</td>
</tr>
<tr>
<td>Beds*</td>
<td>45,110</td>
<td>9,859</td>
<td>5,497</td>
</tr>
</tbody>
</table>

* Only MOH and private sector beds capacity

Source: Ministry of Health 2009, CIH 2012
Sector Overview

There are currently over 369 hospitals, both within the public and private sectors provide various healthcare facilities and treatment throughout the Kingdom. In 2009, the total number of doctors and nurses was approximately 62,805 with over 20% employed at hospitals in Riyadh. (Refer to Exhibit 6).

Bed Capacity: A closer analysis of the bed capacity at hospitals in Saudi Arabia reveals that the total number of beds at MOH hospitals increased from 28,751 in 2002 to 33,277 in 2008 while the private sector and quasi government hospitals bed capacity increased from 10,133 and 10,300 in 2002 to 11,822 and 10,833 respectively for the same period. The gradual increase in private hospital beds is also due to influx of expatriate patients seeking medical treatment who previously had access to MOH hospitals.

As shown in the Exhibit 7, the total number of hospital beds in Saudi Arabia increased from 49,148 in 2002 to 55,932 beds in 2008, an increase of 13.7% over the six year period and the total number of hospitals increased from 350 in 2002 to 408 in 2008, an increase of 16.6% during the same period. The bed capacity at MOH hospitals is by far the largest, accounting for 59% of cumulative hospital bed supply in Saudi Arabia. Other government health centres and private hospitals account for the remaining 41% of bed capacity at hospitals in KSA.

Inpatients and Outpatients: The number of outpatients is considerably higher than in-patients. This is in line with the nature of outpatient treatments which are less than a day long with a high percentage of cases consisting only of consultations. Based on the latest data available, in 2008 in the Kingdom, of the total 136 million total patients almost 96% were outpatients compared with only 4% of the total patients as inpatients (Refer to Exhibit 8).

On average residents of KSA visit healthcare facilities five times a year, from which 31% are to Private sector facilities. Keeping abreast of the increasing healthcare demands and the limited supply of hospitals & specialized treatments, the Ministry of Health in Saudi Arabia has embarked on ambitious plans to establish 195 healthcare projects including thirty-three new hospitals with five hospitals having a bed capacity of over 500 beds. These five hospitals are expected to be constructed in East Riyadh, North Jeddah, Makkah, Baljurashi and Tabuk. The remaining 28 hospitals are expected to have capacity of 200 to 300 beds will be built in South Riyadh, Jazan, Hafz Al-Baten and Abha.

Insurance: Following in the footsteps of other GCC countries, Saudi Arabia has implemented mandatory health coverage for all expatriates. The resultant effect, essentially placing choice of provider into the hands of the individual, has increased the demand levels on the private sector. The Saudi Government is expected to implement a similar rule for Saudi Nationals which would further add to the increasing demand for private healthcare services.

Backed by new regulations, the health insurance market in Saudi Arabia is expected to experience a healthy growth rate. Health insurance Gross Written Premium (GWP) stood at around SAR 8.7 Billion (US$ 2.35 Billion) in 2010. It is expected to reach SAR 21.1 Billion (US$ 5.70 Billion) by the end of 2015, growing at a CAGR of around 19% during 2011-2015. (Refer to Exhibit 9).

In terms of health insurance premiums, the market is dominated by three companies: Tawuniya (22%), Medgulf (19%) and Bupa (22%) who are estimated to capture 63% of the total Gross Written Premium. This indicates a potential threat to healthcare providers, i.e. it restricts their bargaining power to set discount levels with the insurance companies. Concurrently this provides an opportunity to healthcare providers to reduce administration costs rather than having to deal with a myriad of differing forms and administration systems from a large number of insurance companies.
Key Stakeholders Viewpoints:

Extracted and combined from questionnaires and interviews the following represents the views of key stakeholders (investors and operators) in Saudi Arabia relating to the healthcare sector.

- **Market Structure:** The current healthcare sector is dominated by insurance companies (25 companies listed on the Saudi Stock Exchange) and is hence driven by cost versus quality. Unless a set regulation is introduced to monitor pricing, healthcare access and quality of care in private hospitals (the sector) will continue to face lower profit margins and collection delays which will result in lower quality of care.

- **Urban / Rural Divide:** For the provision of healthcare services, there appears to be concentration on key cities (Riyadh, Jeddah, Dammam and Khobar). The delivery of quality services is far weaker in the suburbs and other main cities in KSA. This creates an opportunity for the private sector, however, the dynamics and economics may not be very appealing.

- **Shortage of Hospital Beds:** The present shortage of beds which is growing with time, can be overcome by funding from the public sector to establish new hospitals both in public and private sectors, as well as, improving and expanding existing facilities.

- **Lifestyle Related Disease:** There is a tremendous increase in lifestyle related diseases such as diabetes, hypertension, obesity, heart (cardiovascular) and kidney (dialyses). Presently, the private sector plays an important role in providing care for these diseases, however, the government needs to take an active role in prevention through educating people and offering preventive services.

- **Shortage of Healthcare Resources:** One of the major costs for healthcare providers is spending on qualified medical staff. A large number of doctors, nurses, and paramedical staff in KSA migrate to Western Countries after a few years due to better opportunities and training facilities. In addition, the current Saudi regulations for recruitment and Saudisation continue to further increase the staff cost due to limited available resources. Government role is extremely important in establishing career-focused educational institutions (such as medical and nursing colleges) to increase the supply of local medical professionals and to drive qualified Saudi talent into jobs. Moreover, to overcome supply gap the Government needs to provide funding to private sector and improved employment regulations to be able to attract qualified resources from abroad.

- **Competition from Public Sector Hospitals:** Public Sector Hospitals are not cost driven and therefore provide quality healthcare services to the population either free or at subsidised rates. However, with the current population growth, access has been a major issue in public sector hospitals. This shortage has resulted in an increase in demand for private healthcare facilities. With increased healthcare costs and emergence of lifestyle related diseases, public and private players should form partnerships to create better provision of care.

- **Implementation of “best practice”:** Implementation of Information Technology should have greater prevalence in the sector similar to other developed countries in which medical files for patients are either unified or centrally maintained. Improvement in unified or centralised filing is expected to improve diagnosis and provision of healthcare services.

Conclusions

- The Government of Saudi Arabia continues to allocate a large pool of funds towards the development of the healthcare sector along with providing initiatives for the private sector operators to enter the healthcare market in the Kingdom.

- The surge in population, which shows no sign of slowing down, further contributes towards strong fundamentals for growth and the evident supply gap.

- Private hospitals will continue to play an even more important and crucial role within the Kingdom. Emergence of lifestyle related diseases such as diabetes, hypertension, obesity, heart (cardiovascular) and kidney (dialyses) has created new opportunities for growth and the private sector is gradually expected to play the role of main providers for these segments.

- The delivery of healthcare in the Kingdom and around the world continues to evolve as the needs of healthcare provider become increasingly complex. Trends and industry changes require investors and operators of healthcare facilities to make challenging decisions. Despite improvements in healthcare systems across the Kingdom, the healthcare sector still offers significant opportunities for investors/operators. We believe that due to strong growth fundamentals coupled with the increasing population and regulatory changes the sector is expected to experience robust growth in the foreseeable future.