Middle East Medical Trends Report
2015

It is no secret that Gulf Cooperation Council (GCC) governments are spending billions of dinars, riyals and dirhams on upgrading their healthcare infrastructure. Local and regional newspapers are filled with stories on newer, bigger and flashier hospital projects.

Saudi Arabia's 2013-2014 budget includes funds for 19 new hospitals in addition to the 102 hospitals currently under construction in the Kingdom with around 9 of these projects have strong involvement from the private sector. The Kuwaiti Ministry of Health is planning approximately $5 billion worth of hospitals and medical towers to upgrade its current infrastructure. Abu Dhabi and Qatar are both building multi-billion dollar hospitals and medical (research) centers with both the Cleveland Clinic Abu Dhabi and Sidra Medical Research Center slated to come online with the next few years.

In Dubai, the picture is a bit different, and despite the Dubai Health Authority's $816m and $43.8m upgrades to the Dubai and Rashid hospitals respectively, most of the hospital and clinic capacity in the City of Life is being built by the private sector which will enjoy a rapid boost when mandatory private healthcare insurance is fully implemented.

In fact, Dubai is truly unique in that most hospitals in the GCC receive the vast majority of their revenue from the traditional Fee-For-Service or FFS model, whereby patients pay out-of-pocket for medical services. This is not the case in Dubai where most of the revenue for private sector hospitals comes from private health insurance reimbursements.

The promise of private investment in GCC healthcare is highlighted by the recent success of Abu Dhabi based Al Noor Hospitals Group and NMC Health, which as of the writing of this article, are both trading favorably on the London Stock Exchange with attractive P/E ratios of 23.37 and 18.69 respectively.

Underlying the ramp up in healthcare services is the growing GCC population, which although youthful (50% of the local GCC population is below 25) is extremely unhealthy. As the quip goes, GCC countries are globally competitive in oil production, the airline industry and diabetes. Diabetes is directly linked to the prevalence of obesity which, depending on the GCC country, plagues between 30 to 66% of the population. When it comes to the chronic diseases of diabetes, the countries of the GCC are estimated to have around 30% of the adult population with diabetes type 2.

Trends

There are many global trends driving today's healthcare industry and these can also be seen in the Middle East. Three of the main trends include:

1) Accountability – this is perhaps one of the most interesting recent global trends in healthcare and it forms the crux of the Affordable Care Act (what is known loosely as Obamacare) in the United States. The main idea is that healthcare practitioners will no longer profit from the sickness of patients, but instead will be incentivized to keep patients healthy and encourage preventative and evidence-based medicine. This is, of course, nothing new. In the Fertile Crescent in 17th century BC the Code of Hammurabi called for physicians to be paid only if their patients were healthy.

Fast forward to the Middle East today, where the aforementioned FFS model is the norm. GCC states are trying to reconfigure their healthcare systems (in which at least 80% of spending is covered by the government) to a more sustainable and accountable system that includes strong involvement from the private sector.

2) Consumerism – another interesting global trend in healthcare, which has affected other industries such as travel and tourism, is consumerism or a paradigm shift by which patients are taking increasing ownership of their own healthcare needs. Whether it is 'shopping' via the phone or online for the best priced healthcare service, or even as far as self-diagnosing themselves prior to a doctors visit by browsing the multitude of online healthcare resources, the traditional paternal model of medicine whereby the physician's word is the unequivocal law is slowly eroding. In particular, price transparency is an increasingly important global sub-trend since consumers have greater access to pricing information prior to obtaining medical services. Also, insurers' claims payments are lower, according to new research published in the *Journal of the American Medical Association*.

This healthcare consumerism is accentuated in the Middle East, as many Arabic medical portals do not have the proper oversight and peer-reviewed integrity as western websites. This is also enhanced by the high mobility of GCC patients who are not limited by the primary care gate-keeper model of medicine and instead prefer to be seen directly by a specialist or plunge themselves directly into an emergency room when a routine primary care visit would suffice.

Another issue is the lack of coordination of care when it comes to the medical consumer. The average person in the USA will see about 18 different doctors in their lifetime according to a survey by Gfk Roper. A similar case can be made for patients in the GCC, where it is probably an even more acute issue in that many GCC patients do not have any rapport with a primary care physician and would be hard pressed to even name their family doctor.

Within the topic of consumerism in healthcare, the Middle East has traditionally been known for outbound medical tourism to Europe, the UK, the US and even South East Asia. But, this dynamic is shifting, especially in Dubai. The GCC spends approximately $12 billion ($10 billion in government funds) sending patients abroad for life-saving surgeries, chronic cancer and physiotherapy.

Dubai is one of the few places in the Middle East region that has a solid medical tourism strategy and perhaps the strongest potential to become an international medical tourism hub. According to expert calculations, Dubai currently has a bed/population rate of 1.65 beds/000. The government of Dubai is planning to add over 400 hospital beds whereas the private sector will be adding around 2,486 beds which will increase the bed/000 ratio to 2.72 beds/000 in the next five years assuming a 3% growth in the population. This ratio is still far behind the 4 beds/000 ratio across the OECD but well above the GCC average of around 2 beds/000 meaning that Dubai facilities will need to attract patients (and demand) from outside of Dubai to meet this increasing supply.

3) Medical Inflation – inflation in the healthcare sector has outpaced the inflation in the CPI by almost 700% over the past 40 years according to the US Bureau of Labor Statistics. Within healthcare the largest cost bucket is typically the remuneration of healthcare workers. Whether it is the salaries of healthcare executives, clinicians or administrative staff, it is costing more and more to staff healthcare facilities and technology has still not been as disruptive in healthcare as in other industries, only around 50% of doctors in the USA use some form of electronic health record (EHR) according to US based Practice Fusion, and this number is substantially lower across the GCC. Another cost barrier is the high administrative costs associated with healthcare. This is estimated to be between 24 to 31% according to research by the *New England Journal of Medicine* on the United States, which many experts agree is the world's most bloated healthcare system as healthcare spending is between 16 to 18% of the GDP (the average is closer to 3 to 4% in the GCC).

As the healthcare industry in the GCC continues to grow at double digits, there remains a wealth of opportunity for investors to earn strong financial and social returns on their investment in the healthcare sector. Kuwait Life Sciences Company (KLSC) focuses on developing and investing in innovative healthcare concepts, incubating unique business models and services with the aim of growing the Life Sciences sector in the State of Kuwait and the Middle East and North Africa (MENA) region.

About Kuwait Life Sciences Company (KLSC):

KLSC focuses on innovative healthcare concepts and services which have a clear and unmet need in the Middle East and North Africa (MENA) region. KLSC has been designed as an integrated healthcare company building unique projects and is considered one of the pioneer venture capitalist and private equity companies in the Middle East that invests globally and operates regionally seeking to advance healthcare services and systems within the region. KLSC supports both public and private sector stakeholders to access emerging technologies, establish unique projects and adapt best practices prevailing in today's healthcare field. KLSC operates in healthcare investment, life sciences training, medical technology and pharmaceutical distribution.

Kuwait Life Sciences (KLSC) was established in 2010, with a paid up capital of 15 million Kuwait Dinars (KD) which is equivalent to approximately $53 million US Dollars. KLSC is fully owned by National Technology Enterprises Company. National Technology Enterprises Company (NTEC) was incorporated in November of 2002, by the Kuwait Council of Ministers as a fully owned company by the Kuwait Investment Authority (KIA), the sovereign wealth fund of the State of Kuwait. Capitalized at 100 million Kuwait Dinars (KD) which is equivalent to approximately $350 million US Dollars, NTEC aims to play a vital role in servicing major stakeholders in Kuwait and the Middle East region with their technology requirements.

About the Author:

Dr. Razouki is the current Chief Business Development Officer of Kuwait Life Sciences Company (KLSC) where he is responsible for identifying new business opportunities for all KLSC subsidiary companies as well as sourcing investments opportunities for KLSC.

An Oral and Maxillofacial surgeon by training, Dr. Razouki has completed clinical rotations at the world's top hospitals including New York Presbyterian Hospital of Columbia University Medical Center, Harlem Hospital, Cleveland University Hospital of Case Western Reserve University and Mass General Hospital of Harvard University.

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