Overview

The need for quality hospital services is increasing along with the economic recovery and the increasing degree of public health. For the past few years, the Indonesian hospital industry has been experiencing a significant development with the issuance of several regulations designed to create a healthier business environment. Now, not only the government --which naturally bears the responsibility to provide health services to the public--, but also the business people have been active in supporting the Indonesian hospital industry. Because of this, we have been seeing an increasing trend of new private hospital establishments since the last few years.

Nonetheless, this recent development is not without problems. Issues regarding limited human resource availability, uneven distribution of hospitals, expensive health treatment, and operational issues culminated in legal cases between hospital managers and unsatisfied patients often make their ways to the news. So the questions are: What is the reality of Indonesian hospital business? What about its potential? The following is a review on Indonesian hospital industry.

Current Situation

In 2008, the number of hospitals in Indonesia was 1,320 (Ministry of Heath, 2009), or up by 86 hospitals from 2003. Among these hospitals, 657 were owned and managed by private institutions, while the rest belonged to the government (Ministry of Health, Municipality/Provincial/District governments, Armed Forces/Police, and State-Owned Corporations).

As for private hospitals, many of the recently built hospitals are labeled international standard. These so-called international hospitals are usually located around elite urban areas and equipped with sophisticated medical equipments and luxurious facilities like a five-star hotel. Undoubtedly, the involvement of foreign investors, the increasing number of middle-class society, the increase in per-capita income, and the increasing trend among the population to maintain a healthier lifestyle and to critically select hospitals are becoming contributing factors to this recent growth in high-class hospital developments.

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1 Observer and banking practitioner from one of the state-owned banks.
Table 1. The Development of Hospitals in Indonesia, 2003-2008

<table>
<thead>
<tr>
<th>No.</th>
<th>Owner</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ministry of Health</td>
<td>31</td>
<td>31</td>
<td>31</td>
<td>31</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>2</td>
<td>Provincial/District/Municipality Govt.</td>
<td>396</td>
<td>404</td>
<td>421</td>
<td>433</td>
<td>446</td>
<td>446</td>
</tr>
<tr>
<td>3</td>
<td>Armed Forces/Police</td>
<td>112</td>
<td>112</td>
<td>112</td>
<td>112</td>
<td>112</td>
<td>112</td>
</tr>
<tr>
<td>4</td>
<td>State-Owned Corp.</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td>78</td>
<td>78</td>
</tr>
<tr>
<td>5</td>
<td>Private</td>
<td>617</td>
<td>621</td>
<td>626</td>
<td>638</td>
<td>652</td>
<td>653</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>1,234</strong></td>
<td><strong>1,246</strong></td>
<td><strong>1,268</strong></td>
<td><strong>1,292</strong></td>
<td><strong>1,319</strong></td>
<td><strong>1,320</strong></td>
</tr>
</tbody>
</table>

(Source: Ministry of Health)

Moreover, the government has been active in supporting the private sector to invest in Indonesian hospital industry for the last few years. This is actually related to the declining availability of government spending that can be allocated for new hospital developments. Essentially, the government has been supporting the private sector to invest in hospital business for years, but not until the Presidential Decree regarding The Negative Investments List (*Daftar Negatif Investasi*, or DNI) no. 96 and No. 118 in 2000 that the government explicitlly allow foreign investors to have 49 percent ownership. This regulation, among other supporting factors, is paramount in boosting the development of new joint-venture hospitals by domestic private institutions and foreign investors.

**Potential**

The potential of Indonesian hospital business can be seen by the relatively high requirement for health services as measured by the public health degree. Public health degree is measured by several mortality indicators like Infant Mortality Rate (IMR), Under fives Mortality Rate (UMR), Maternal Mortality Rate (MMR), Crude Death Rate (CDR), and Life Expectancy at Birth \( (e_0) \). In general, although these indicators have been improving from year to year, they are still pretty high. This is an indication of a relatively low public health degree.
Furthermore, the potential of Indonesian hospital business can also be seen by the relatively low availability of hospital beds compared to the population. To illustrate, if the number of hospital beds in Indonesia is currently around 143 thousand and the population is around 226 million, then the ratio of Hospital Bed per Population is around 1:1,580. This is far from the ideal ratio of 1:500 (SWAsembada, 2007). In order
to achieve this ideal ratio, 451 thousand hospital beds are needed. If, for example, the average number of beds per hospital is 200, then Indonesia needs at least 2,250 hospitals. As a comparison, Japan’s Hospital Bed per Population ratio is already around 1:74 in 2004, while Malaysia is 1:500 (SWAsembada, 2006).

On the other hand, the development of hospitals in Indonesia is concentrated only in Java; with Central Java, East Java, West Java, and DKI Jakarta having the highest concentration of hospital developments (Ministry of Health, 2008). About 39 percent of this number belongs to private hospitals. Other provinces outside Java with relatively high numbers of hospitals are North Sumatra and South Sulawesi.

Graph 3. The Number of Hospital per Major Islands in Indonesia, 2008

(Source: Ministry of Health)

The number of private hospital’s patients was recorded to reach 2.4 million in 2005. With an annual growth rate of 7 percent, this number is projected to reach 3.5 million by 2010.

Problems

One of the main problems in the private hospital business in Indonesia is the limited availability of qualified human resources. To illustrate, around 80 percent of the specialists working for private hospitals are also working for government hospitals. This is due to the limited availability of these specialists, even though the need for their services is very high. Additionally, the availability of medical human resources is...
concentrated only in Java, and thus may pose as a serious obstacle for hospital developments outside of Java. Fortunately, the government has allowed foreign medical specialists to work in Indonesia, and thus may help to reduce the gap of human resource requirement.

High investment cost for new hospital development is another delicate problem to some investors. To illustrate, development of a 'standard' hospital may cost more than IDR 50 billion, while a 'luxurious' modern hospital may cost more than IDR 200 billion. As an example, the development of EKA Hospital BSD City in Tangerang by The Sinar Mas Group was reported to cost IDR 800 billion (Riaubisnis, 2009). This is excluding operational expenses, which can also cost billions annually.

This high investment cost is usually needed to equip hospitals with the most sophisticated medical equipments -- a trend among private hospitals in order to attract more patients. The fact is, even medical equipments for a 'standard' hospital can cost more than IDR 10 billion. So, imagine how expensive it is to equip a 'luxurious' modern hospital with the latest medical technology. In general, hospital developers usually spent half of the total investment fund in medical equipments.

<table>
<thead>
<tr>
<th>Hospital/Clinic</th>
<th>Sophisticated Medical Equipments</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>RS. Husada</td>
<td>Radiology equipments, MRI 1.5 Tesla, Multi slice CT Scan.</td>
<td>The most expensive medical equipments cost around IDR 10 billion per unit, investment for medical equipments can cost around IDR 10-20 billion annually, BEP in 4-7 years, sales turnover is more than IDR 100 billion annually.</td>
</tr>
<tr>
<td>RS. Cinere, Klinik Kardiovaskular</td>
<td>Cardiovascular equipments, catheterization equipments, Multi slice (64) CT Scan2, Computerized Tomograph, 4D ultrasound.</td>
<td>The most expensive medical equipments cost around IDR 10 billion per unit, BEP in 6 years, treatment cost is around IDR 70-80 million.</td>
</tr>
<tr>
<td>RS. Siloam Gleneagels</td>
<td>Multi slice CT Scan (16), Angiograph, MRI, Echo, 4D USG.</td>
<td>MRI equipments cost around USD 1.5 million per unit, Multi slice CT scan and Angiograph cost around US$ 1 Million per unit, Echo around USD 600 thousand, BEP in 5-10 years.</td>
</tr>
<tr>
<td>RS. Siloam Gleneagles Specialist Clinics</td>
<td>The latest medical equipments for skin, beauty, and health.</td>
<td>Investment for medical equipments cost around IDR 4 billion, BEP in 2-3 years, target patient is around 50 people daily.</td>
</tr>
<tr>
<td>Erha Clinic</td>
<td>Dermatological equipments and the latest skin care equipments.</td>
<td>Investment for medical equipment costs around IDR 2 billion, target patient is around 100 people daily.</td>
</tr>
</tbody>
</table>

(Source: The Directory of Medical Equipment Producers, Data Pratama)
Additionally, there is also an assumption that the quality of Indonesian hospital services is far below that of foreign hospitals. This is the reason why many Indonesians—especially those with high income—went abroad for their health treatments. Singapore and Malaysia, for example, have becoming the main destinations for wealthy Indonesian patients. According to The Indonesian Medical Association’s chairperson Fachmi Idris, around 1 million Indonesian went to foreign hospitals and spent around IDR 20 trillion every year (Tempointeraktif, 2009).

Finally, hospital business can never be separated from the nature of its business, which is a social service. Hospitals are expected to provide social functions, particularly to those who are underprivileged. On the other hand, high investment cost for hospital developments and operations, has forced hospital managers to charge high treatment costs. This has sometimes cause clashes between hospital management and patients that may affect the hospital's reputation even though reputation is one of the most important assets for service providers.

The Roles of the Government and Foreign Investors

For the past few years, the government has promoted 2010 as ‘Indonesia Healthy’ year. Through several programs and regulations, the government has been active in improving the healthcare sector. One example is the issuance of the Presidential Decree No. 98/2000 and 118/2000 which allowed foreign investors to have up to 49 percent ownership in Indonesian hospital business.

This regulation has no doubt boost foreign investments in the hospital business in Indonesia. Some big names like Gleneagles Development Pte. Ltd. from Singapore and Ramsay Group Healthcare from Australia conducted a joint-venture with local developers like Pt. Lippo Karawaci Tbk. to develop new modern hospitals with international standard. The goal is clear: to provide services for patients requiring first-class treatments.

The growing trend for developing new hospitals by the government and the private sectors (both by local developers only and through joint-venture with foreign investors) has helped to create a better business setting for the hospital industry. During 2005-2006 for example, the Ministry of Health recorded that 96 new hospitals have been or are planned to be built in 19 provinces in Indonesia—even though up until now, the realization of this plan has been somewhat low (Ministry of Health, Data Pratama, 2008). Nonetheless, this growing trend is expected to continue in the following years.

Finally, the government has also been active in creating a better hospital environment. In 2009 for example, the government was busy preparing the new Hospital Law, which will regulate several issues including hospital accreditation,
treatment classes, rate patterns, and the freedom to speak regarding bad hospital services. With the issuance of this regulation, it is expected that professionalism level and hospital functions will become much better. Additionally, the law is expected to avoid the reemergence of issues like patient rejections in regard for treatment classes’ unavailability, bad services, or reputation cases like the recent much media-hyped case between Prita and Omni International Hospital.

Conclusion

In conclusion, the Indonesian hospital business prospect is improving. Not only hospitals owned by the governments, but also hospitals owned and managed by private institutions are growing better. This is no doubt creating positive changes in the hospital service level and the availability of better medical facilities.

With ‘Indonesia Healthy 2010’ slogan, the government is becoming more active in improving the public health degree. This is visible through improving public health indicators like IMR and MMR. Moreover, through several programs and regulations, the government has given a vent for foreign investors to invest in Indonesian hospital industry. This condition further indicates the high potential of Indonesian hospital business.

However, several problems like limited availability of human resources, high investment costs, uneven distribution of hospitals, and assumption that foreign hospitals offer better services than local hospitals may hamper further development of Indonesian hospital industry. For this, active involvements of the government, the public, and the business practitioners are critical to the success of Indonesian hospital business development.
References


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