

Indonesia's Private Health Sector Market in the JKN Era

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Background

Indonesia's national health insurance scheme (*Jaminan Kesehatan Nasional*, or JKN) supports the government's commitment to promoting health and well-being among its citizens. Responding to the demand for health services created through JKN will require strong partnership between the government and the private health sector. How have JKN policies affected the private health sector? How do the private sector's responses expand access to high quality healthcare at an affordable cost? Do JKN processes support the private health sector remaining robust and continuing to invest and grow?

The U.S. Agency for International Development (USAID)-funded Health Policy Plus (HP+) project and Indonesia's National Team for the Acceleration of Poverty Reduction (TNP2K) conducted analysis to explore these questions, focusing on JKN's impact on pharmaceutical and medical device companies and private hospitals. We reviewed whether new actors have joined the market following JKN implementation—especially in geographical areas that were not well-served previously—whether the private sector's products or services have diversified, and whether JKN has motivated healthy competition between companies and hospitals.

Methods and Data

HP+/TNP2K collected data through three approaches: (1) a survey of 73 private hospitals in 11 provinces, (2) 27 key informant interviews with private health sector leaders, and (3) a desk review of publicly available secondary data. The facility-based hospital survey gathered detailed quantitative trends on volume and diversity of service provision, profitability, and perceptions on competition. Key informant interviews and desk review allowed us to analyze trends to better understand certain market movements in the private health sector.

JKN's Impact on Pharmaceutical and Medical Device Markets

In absolute terms, Indonesia's pharmaceutical market has grown since JKN began in 2014 (Figure 1a). However, sales growth has slowed in recent years and is projected to decline in 2018 and 2019 for both patented and generic drugs. Only a few new companies have entered the pharmaceutical market since 2014, and there is little evidence to suggest that the variety of drugs has increased. But JKN has had an effect on market differentiation between multinational and local companies, with the former focusing on branded drugs while the latter focuses on generics. Competition among domestic firms has increased in price, as opposed to product quality, which could pose a future concern for patients.

Figure 1a: Total Pharmaceutical Market 2012–2016

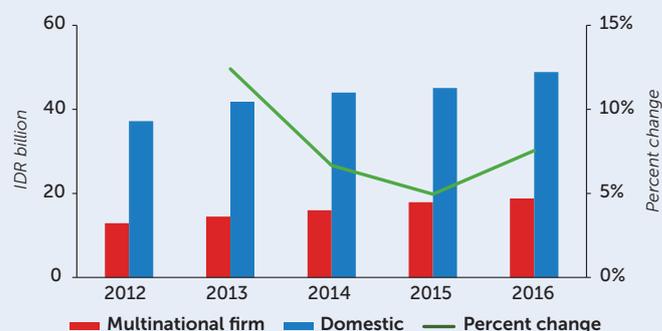
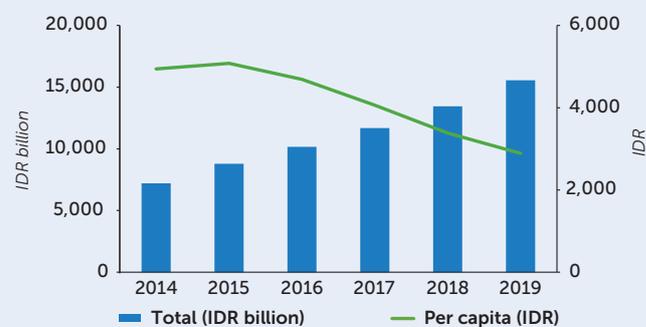


Figure 1b: Medical Devices Market, 2015–2019



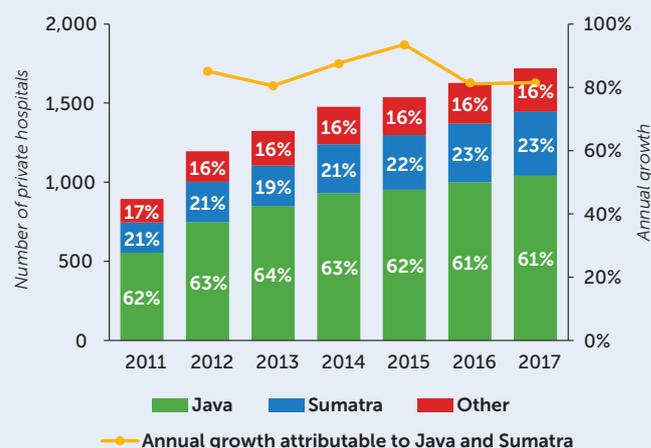
Indonesia's medical device market, valued at IDR 10.2 trillion in 2016, is projected to continue growing (Figure 1b). Before JKN, the market had a low base. It grew by 12 percent in 2016 and by more than 16 percent in 2017 and 2018 (projected). Growth may reach 18 percent in 2019. The number of medical device companies has not changed. However, competition and growth into new geographic areas is increasing. The diversity of products offered has increased in some areas, specifically for diagnostic machines and consumable devices (tubes, catheters, etc.), which is linked with the private hospital sector trends discussed below. The reimbursement ceiling set by the Indonesia Case Based Groups (INA-CBGs) is affecting industry growth as facilities decide how patients should be treated at lower cost. Key informants expressed that increased competition is driving down prices and firms are responding by ensuring that they are listed on the procurement e-catalogue if possible (used for public sector procurements) and by investing in building brand recognition and client loyalty.

Impact of JKN on the Private Hospital Sector

The number of private hospitals in Indonesia has grown since JKN implementation. They remain concentrated in Java and Sumatra (Figure 2). For-profit hospital networks' investment since 2014 indicates a desire to benefit from the JKN market. Once the Java and Sumatra urban and peri-urban markets are saturated, expansion into rural areas is likely, where a lack of trained doctors and nurses remains a concern and certain policies around facility construction and licensure may act as barriers.

Mixed evidence shows that the INA-CBGs are sufficient to incentivize private hospitals to offer more and additional services, especially those essential for public health, at higher quality. Hospitals with sufficient cash flow are expanding into higher complexity services with a higher net revenue. However, for most hospitals, types of service offered have not expanded significantly, and profit is maximized by reducing costs and offering routine care. Regardless of profit-seeking status, private providers are price-takers on the INA-CBG tariff rates. Since the national health insurance agency (JKN's administrator) is now overwhelmingly the largest and most powerful purchaser of health services, providers are motivated to focus on cost control—not quality.

Figure 2: Growth in Number of Private Hospitals, by Sector and Geography (2011–2017)



Conclusions and Policy Recommendations

Our assessment suggests that JKN has grown the private market, incentivized investment, and increased competition, but has yet to holistically motivate greater geographic and/or product diversity. JKN could have a greater positive impact on the private sector if stakeholders:

- Clarify INA-CBG tariff rate setting processes, including costs accounted for in rate calculation, so that private sector players can make informed decisions regarding treatment options
- Further use health technology assessments (HTA) that focus beyond expensive top-up drugs to help inform procedure, drug, and medical device selection processes
- Improve e-catalogue registration, consider allowing multiple winners for pharmaceuticals, and develop criteria in addition to price; consider private providers' access to e-catalogue
- Improve coordination between the private health insurance market and JKN, based on HTA analyses, to provide supplementary (or top-up) coverage that can allow future access to non-generic medications and treatments that are currently excluded from JKN packages

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