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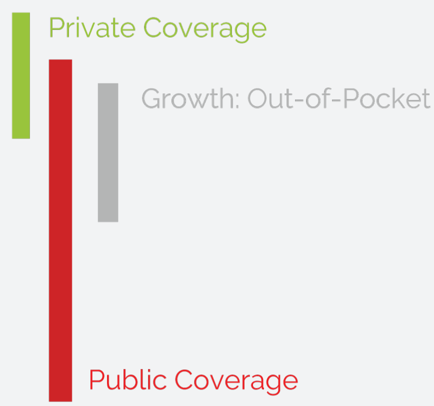
Moving to the Middle: The Private Sector Fills the Gap Left by Expanded Public Coverage

The recent recession in Latin America saw the region's nominal GDP slide in dollar terms from US$ 5.6 billion in 2014 to an estimated US$ 4.2 billion by year end 2016, putting additional financial strain on already underfunded public health programs. While countries throughout the region have made efforts to expand healthcare coverage to include a greater percentage of their population, public health spending in Latin America averages only 3.7% of GDP versus an OECD average of 8.3%. The result is often a tradeoff between the accessibility and the depth and quality of care. The range of public services and their utilization are typically limited to more catastrophic health needs. An in-hospital doctor consultation may require a full day in line, or be limited to only 10 minutes. The 100 million Latin Americans who ascended to the middle class over the past decade generate larger disposable incomes and are increasingly dissatisfied with such care – they are willing to pay an out-of-pocket premium in order to achieve faster or higher quality care. The fiscal budget crunches resulting from the 2015-16 recession are only expected to further private expenditures as private care rises to fill in the gaps left by the public system.

- **Mexico's low public spending drives high out-of-pocket expenditures:** Although the combined efforts of Mexico's public health institutions (such as IMSS, ISSSTE and Seguro Popular) cover an estimated 90% of the population, the country's public healthcare expenditures lag behind the regional average at only 3.3% of GDP. As a result, Mexico has one of the highest out-of-pocket medical spending rates in the world, which has grown from 44% in 2014 to nearly 50% in 2016 as the rising class of middle income Mexicans (SES C) are increasingly willing to sidestep the public system and pay a premium for

PRIVATE SECTOR GROWTH OPPORTUNITY IN MEXICO

SEC CLASS	% POP.	INCOME '000, USD per month
A/B	7%	>$5.9
C+	14%	$2.5-$5.9
C	18%	$1.6-$2.5
C-	16%	$0.8-$1.6
D+	20%	$0.5-$0.8
D	18%	$0.2-$0.5
E	7%	<$0.2



Source: GHI analysis

superior or faster private care. Mexico is now seeing a burgeoning of small, private, highly specialized clinics who cater to the middle class. One example is Salud Digna, a network of low-cost clinics providing preventative screenings like mammograms and diagnostic tests at affordable rates. They attracted a loan from the InterAmerican Development Bank in to expand services to reach an additional 2.5 million patients. Growth in in-bound medical tourism is also major driver for investments in cutting-edge private care facilities.

- **Brazil's private sector opens to foreigners:** Brazil's private healthcare sector has long been the largest and best developed in Latin America due to its sizable upper classes who sidestep the long lines and poor quality of public services. Of Brazil's 7,800 hospitals, 57% are private operations. Private health expenditures registered 4.5% of GDP versus public expenditures at 3.8% in 2014, but out-of-pocket spending at 25.5% is lower than most of the region due to the prevalence of private insurance. Over 70 million Brazilians or 34% of the population have some form of private coverage, more than doubling from 32 million in 2004 to become the second largest insurance market in the world in terms of subscribers. The private insurance market registered approximately US$ 48 billion (R$156.7 billion) in annual revenues for 2016, including employer-sponsored health plans, comprehensive personal plans and dental plans. U.S. insurance giant United Health purchased the majority stake of Brazil's top private insurer, Amil Participacoes, in 2012 for nearly US$ 5 billion.

In 2015, new legislation passed to allow foreign ownership of private healthcare establishments such as hospitals, clinics and labs. United Health has since been on a delivery acquisition spree and currently has ownership in 31 hospitals in Brazil. In 2016, private equity firm The Carlyle Group bought a stake in Brazil's second largest hospital operator. United Health Group is developing a public-private partnership in Brazil through its Optum division.

- **Colombia's health system still battling financial troubles:** Colombia's publically funded healthcare intermediaries (EPS) have been notoriously late on hospital payments for over 5 years, putting over 500 institutions at risk for closure in 2013. At the end of 2015, Colombia's Ministry of Health reported a deficit of US$ 1.6 billion caused mainly by mismanagement and embezzlement of its EPS system. The turmoil experienced by the federal bailout of Caprecom posed a threat for the country's health insurance sector, already influenced by corruption and poor accountability. In early 2017, a series of Colombian health care reforms are set to come online from the Statutory Health Law (LES) approved in 2015, making medical service a fundamental right for every Colombian citizen and expanding the definition of coverage. Yet, Colombian out of pocket expenditures have risen dramatically, with some estimates topping 70%, as those with the financial means turn to the private sector for care.

Looking ahead: Supplemental, prevention-focused private care for the middle class.

The current public healthcare model in Latin America is based on acute treatment of medical events and does not provide adequate preventative medical care. Major regional trends like the rising incidence of chronic diseases and an aging population points to the need for improved and affordable primary care that can help avoid costly trips to the emergency room, as well as improving the quality of life for patients. Examples of private clinics like Salud Digna in Mexico will become more common to offer a low-cost primary care alternative targeting middle income patients. As the market opens further, we can expect to see international players increasingly present within the private insurers and hospital operator space. The public health sector should lean into public-private partnerships to expand care, improve facilities and increase efficiency.

About Global Health Intelligence

Global Health Intelligence provides detailed information on healthcare infrastructure in emerging markets in order to help clients understand the competitive landscape and identify opportunities for growth.

Founded on over 20 years of research expertise in emerging markets, Global Health Intelligence has developed the world's largest hospital demographics database focused on Latin America.

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Our Services

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  The world's largest hospital demographics database focused on Latin America
- **Market size / share**
  A unique methodology based on the analysis of import data to deliver reliable insights in a timely manner
- **Tailored research**
  Refined with 20+ years Market Intelligence experience:
  - Market sizing and segmentation
  - Partner search & market due diligence
  - Competitive profiling
  - Pricing and cost analysis
  - Best practices
  - Positioning and opportunity identification

Hospital Database Characteristics

12,000 hospitals profiled

Coverage in 11 countries

Over 100 data points per hospital

Raw data exports to Excel

Integration into your CRM

Prebuilt Tableau dashboards

Available immediately!