Partnering for health

Transforming Malaysia's healthcare through public-private partnerships

June 2024

pwc

Content

01

Setting the scene:

A critical need for public-private partnerships

There is a clear imperative to reinvent Malaysia's current healthcare system. Despite the Ministry of Health (MOH) receiving one of the largest increases in allocation for Budget 2024 (a 13.5% increase from 2023), funding remains inadequate to address the growing healthcare needs of an ageing population and rising medical inflation.

MOH's long-term plans to reform the healthcare system requires greater public-private collaboration.

In addition to insufficient public health funding, the rising burden of diseases and overcrowded public facilities are among the key issues exacerbated by an already understaffed, overworked and underpaid workforce.

With Malaysia's upcoming Healthcare Financing Reform plan, policymakers have the opportunity to seek innovative ways to address current and future healthcare needs in Malaysia. Given the country's dual healthcare system, which is anchored by a primarily tax-funded public sector on one hand, and a fee-for-service private sector on another - forward-looking private healthcare operators can play a more meaningful role to shape the reinvention narrative together with the public healthcare provider.

Challenges in Malaysia's healthcare system

Ageing society and rising non-communicable diseases (NCDs)

With an ageing population,

9.5 years is expected to be spent in poor health

NCDs likely to cost MOH at least

RM9.65bn annually

Disparity between public and private healthcare

Public sector clinics comprise

28% total primary healthcare facilities

but handle almost

64% outpatient visits for Malaysia

Underinvestment in public healthcare system

% healthcare spend to GDP

5.1% Malaysia v.s. **6% - 7%** Upper Middle Income Countries*

Note: *Upper middle-income countries as classified by the World Bank Group

Source: Malaysia Healthcare White Paper (2023), Direct Healthcare Cost of non-communicable Diseases (2022), Khazanah Research Institute (2021)

Public-Private Partnerships (PPPs) can contribute much more in healthcare service delivery

With proper implementation, healthcare PPPs can effectively improve an overburdened healthcare system by leveraging shared resources and expertise between public and private sectors. Sharing of medical equipment and facilities, for example, can increase accessibility, deliver higher quality of care at a lower cost to patients.

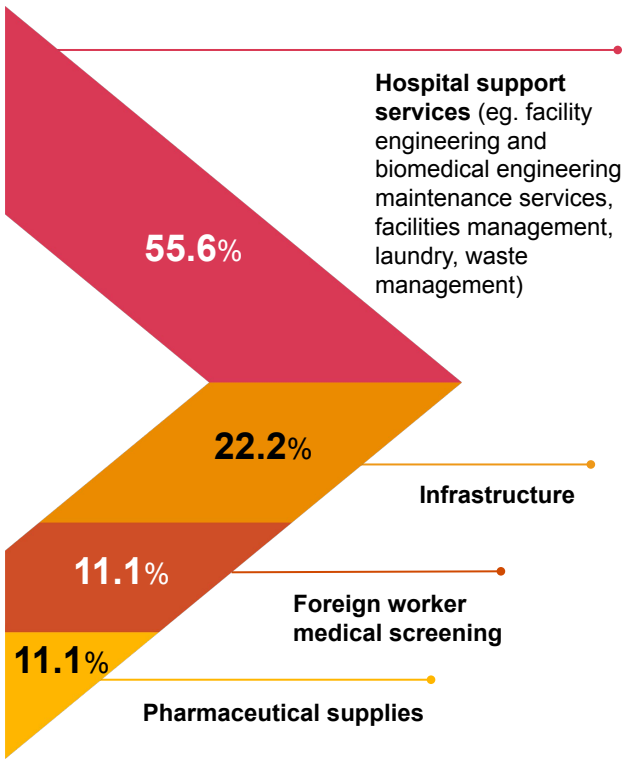
However, of the 502 PPP projects in Malaysia between 1983 and 2023 recorded in the Public Private Partnership Unit's database, why is it that only 4% were on healthcare?

The majority of healthcare PPP projects in Malaysia involve contracting arrangements that focus on hospital support services (e.g. facilities management, biomedical engineering maintenance services, laundry services, and waste management) or healthcare infrastructure (e.g. the construction of facilities). The current arrangements do not address the crux of key challenges within the health system, to deliver consistent, high quality healthcare to the Rakyat. Furthermore, it does not incentivise innovations in partnerships beyond the scope of the contract.

Ultimately, PPPs that explore opportunities for collaboration in innovative healthcare service delivery and care models can help deliver more efficient, value-based healthcare, and improved healthcare outcomes.

Healthcare PPP projects in Malaysia

(by number of projects between 1983 and 2023)



Source: Malaysia's Public Private Partnership Unit, PwC Analysis

Looking abroad: Expanding PPPs in healthcare

Globally, healthcare has emerged as one of the foremost sectors for PPPs. Both developed and developing countries employ healthcare PPPs as a strategic approach to enhance the quality and accessibility of healthcare services.

From 1990 to 2021, healthcare PPP projects comprise

21%

of total PPP projects in the **European Union** and **UK,** averaging

USD1.6bn per project.

This places healthcare among the **top three sectors** with PPPs, alongside transport and education.

In **Taiwan**, the total value of infrastructure PPP projects under the 'Health, Welfare and Medical facilities' category between 2002 and 2022 was

USD2.0bn

And is one of the **top four sectors** (by quantity) with PPP infrastructure projects.

Source: EPEC Data Portal (only EU member states and UK were taken into account), Ministry of Finance Taiwan, PwC Analysis

02

Time for reinvention:

Reimagining PPPs in Malaysia's healthcare

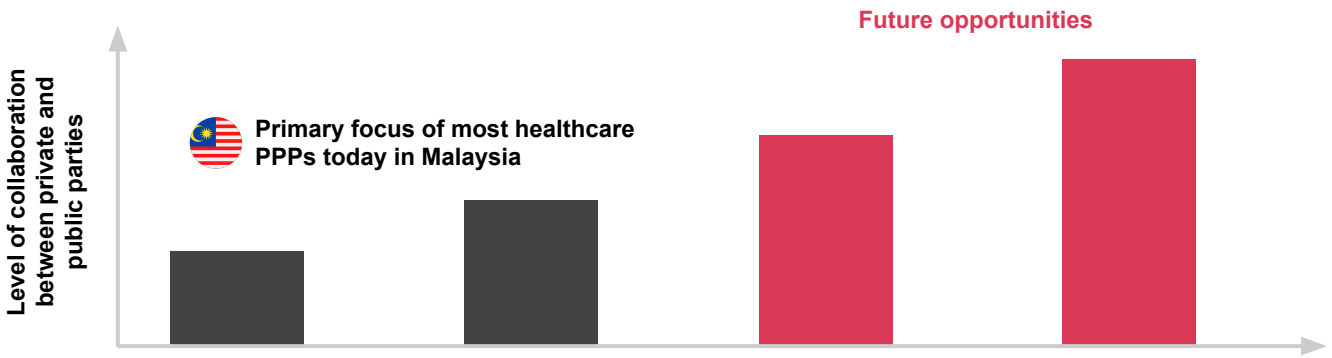
Healthcare PPP models globally are evolving. It's time for ours as well.

Emerging PPPs around the world involve a higher degree of private sector engagement in healthcare service delivery across the continuum of care.

While early PPP models in Malaysia were primarily focused on essential hospital infrastructure, our healthcare systems will face continuous pressure to enhance the quality and efficiency of care.

Looking forward, healthcare PPPs in Malaysia can similarly explore innovative ways to utilise data, systems and networks of providers focused on wellness and disease prevention. Health systems must become more integrated, addressing patient care needs holistically.

Future healthcare opportunities for Malaysia

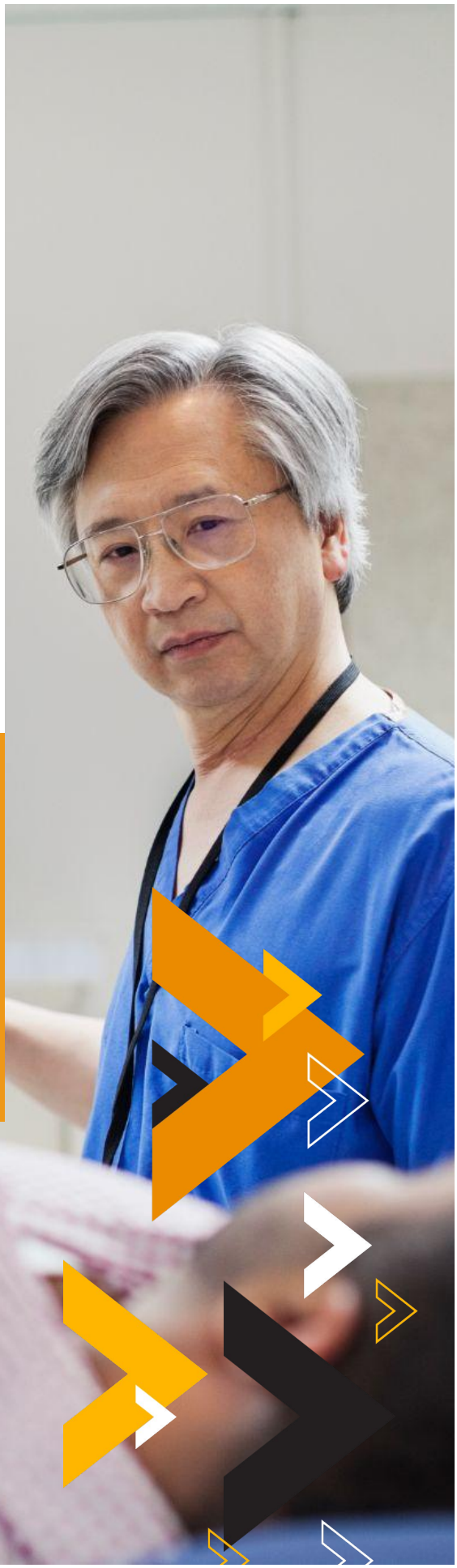


	Non-clinical service contract	Infrastructure - based model	Clinical services model	Integrated healthcare services
Non-exhaustive examples	Concession agreements for hospital support services*	Construction of the Tunku Azizah Hospital	Yichang integrated elderly care facilities, China Primary Care Networks (PCN), Singapore	La Ribera Hospital, Spain Centro Hospitalar de Cascais, Portugal

*Includes, amongst others, Radicare (M) Sdn Bhd, Edgenta Mediserve Sdn Bhd, Medivest Sdn Bhd, One Medicare Sdn Bhd and Sedafiat Sdn Bhd

Source: PwC Analysis

Case study 1:
Integrated healthcare



Current situation in Malaysia:

Out-of-pocket expenditure (OOP) for inpatient services and pharmaceuticals have rapidly increased over the years, driven by surge in demand for medical supplies, medication and treatment post-pandemic.

Coupled with rising medical costs and a growing disease burden, this is expected to not only exacerbate national healthcare financial and supply capacity constraints, but also impact delivery of community health services may leave a significant effect the lives of Malaysians if the status quo remains.

The solution:

The implementation of appropriate financing incentives that prioritise health outcomes over procedures is crucial. Such incentives can not only encourage the expansion of out-of-hospital care but also encourage the adoption of a holistic approach through preventive health, and ultimately enhancing the overall quality of health services provided.

Between **2019** and **2022**, OOP for for inpatient services and pharmaceuticals have grown rapidly.

	Inpatient services	*Pharmaceuticals*
CAGR	13.5%	11.8%
Total OOP (2019-2022)	RM23 bn	RM15 bn

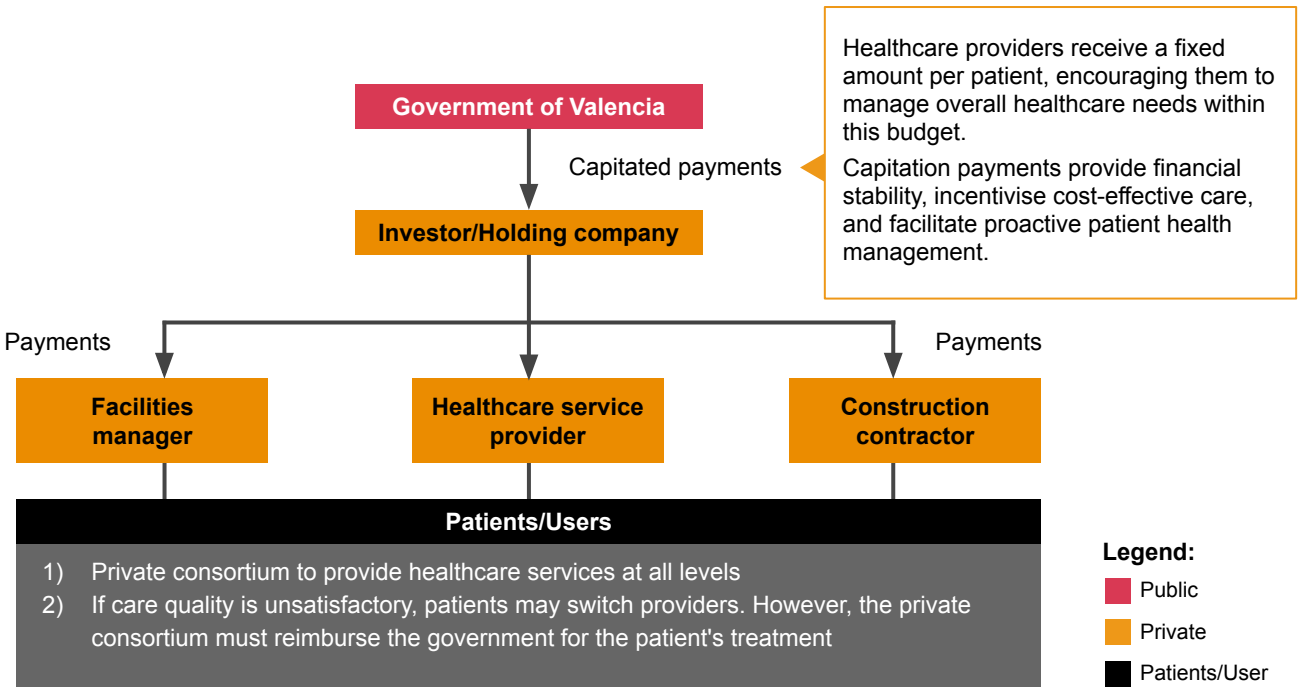
Source: Ministry of Health Malaysia, PwC Analysis

Effective financing incentive structures for PPP models can incentivise 'out-of-hospital' care and reduce costs

La Ribera Hospital, Spain ('Alzira model')

To address the lack of healthcare access caused by severe flooding, the Valencia Community Ministry of Health established a new regional hospital in Alzira. A private consortium was appointed to handle the design, financing, construction, operation, and maintenance of the hospital, as well as provide specialised clinical care.

In a departure from traditional public financing, a **per-capita payment system** was implemented - capitation fee per patient paid to concessionaire by the Regional Health Authority of Valencia allocation. To maintain high quality of care, the principle of **'money follows the patient'** was applied, offering patients the choice to select an alternative healthcare provider if care quality fell short. **This approach has incentivised hospitals to prioritise high-quality care, reduce unnecessary treatments, and promote cost-effective healthcare delivery.**



Incentives

Capitation payments sustain quality and cost

The healthcare system is incentivised to not only reduce hospital admissions but also to address issues related to overtreatment and cost.

'Money follows the patient' principle

As the patient can choose to use another healthcare provider from another area, the provider is incentivised to maintain high quality of care.

Visible and clear performance indicators

Performance indicators help to drive performance, as information is publicly available and actively managed.

Outcomes

Annual savings to the government of at least 30%

34% reduction in hospital readmissions within three days

Average length of stay reduced by 20%

Source: PPPs in healthcare: Models, lessons and trends for the future (2018), PwC UK Blogs: The Alzira Model (2014), PwC Analysis

Case study 2:
Primary care

Current situation in Malaysia:

Out-of-pocket expenditure for hospital care grew at a CAGR of 8.85% between 2013 and 2021 - compared to at 5.26%. This might reflect a higher emphasis on hospital-centric healthcare delivery, and potentially inadequate investment in primary care and ambulatory care services to address some of the less critical healthcare needs which can be treated outside the hospital setting.

The solution:

Collaboration between the public sector and primary care physicians is essential to alleviate overcrowding in hospitals. This partnership facilitates comprehensive, patient-centered care within local communities, improving healthcare outcomes.

Total expenditure on primary healthcare Malaysia reached

RM24 bn in 2022

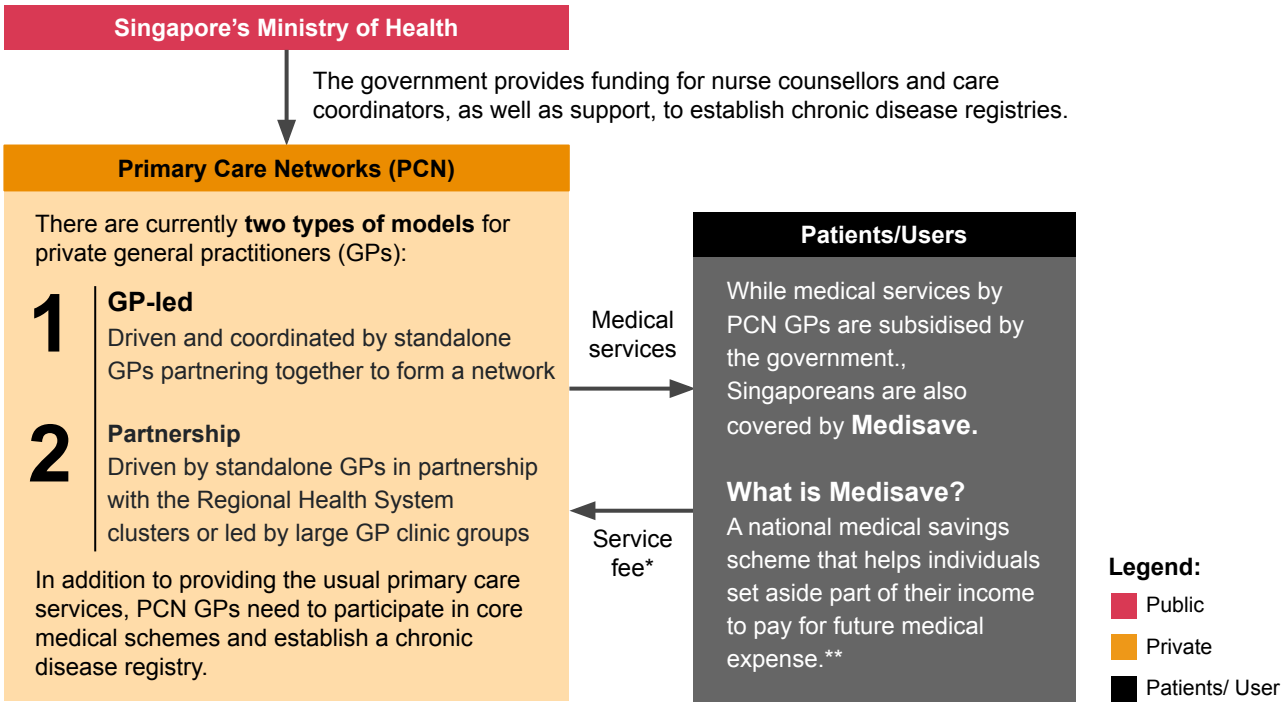
Source: Ministry of Health Malaysia (2023), PwC analysis

Developing a strong community-based primary care system through PPPs can ease strain on hospitals and increase efficiency

Primary Care Networks (PCN), Singapore

With Singapore's ageing population and the increasing prevalence of chronic diseases, demand for complex care is expected to rise. In the absence of a robust and comprehensive primary care sector, there would be a surge in hospital admissions for conditions that could be managed at the primary care level, such as bronchial asthma, bronchopneumonia, and gastroenteriti. This is similar to the current situation in Malaysia.

In response to this, Singapore looked to strengthen its primary care sector through the establishment of Primary Care Networks (PCNs). Launched in 2018 with an initial budget of USD33.3 million per year and catering to a population of 5.6 million at the time, PCNs were part of Singapore's strategic shift to extend healthcare beyond the hospital and into the community. **By grouping clinics together geographically, PCNs allow doctors to pool resources and monitor their patients closely, promoting a more holistic and team-based approach to primary care**.



Incentives

Member GPs operate as independent businesses

The PCN framework primarily focuses on facilitating collaboration and coordination among clinics. Each clinic remains an independent business, allowing GPs to retain its flexibility, adapt to patient needs and provide more choices to patients seeking primary care.

GPs need to meet professional standards

GPs typically need to:

- Be accredited
- Commit to the collaboration
- Be able to provide a range of primary care services
- Integrate care with other healthcare providers
- Demonstrate a commitment to quality improvement

Benefits

- Number of clinics forming PCNs increased from 340 clinics in 2018 to 670 in 2022
- Clinics in PCNs benefit from economies of scale for ancillary services
- Closer monitoring of patients' chronic conditions for earlier intervention

Note:
* As GPs in a PCN is still considered an independent business, they are free to set their own service fees. However, the range can be around $16 to $50 for Singaporean citizens/permanent resident based on information from the National University Health System PCN
**Every employee contributes 8%-10.5% (depending on age group) of their monthly salary to a personal MediSave account. The savings may be withdrawn to pay the hospital bills of the account holders and his immediate family members.

Source: Ministry of Health Singapore, Healthier Singapore White paper, Population trends 2018 - Department of Statistics Singapore (2018)

Case study 3: Elderly care

Current situation in Malaysia:

An ageing population and increasing NCD rates is turning Malaysia's demographic challenge into an impending healthcare crisis impacting service delivery and funding.

The solution:

Immediate and strategic investments into elderly healthcare are essential. Given fiscal constraints, leveraging on PPPs could prepare Malaysia to address the critical healthcare needs of a fast ageing population more adequately.

Malaysia's aged population is expected to grow at

4.5% CAGR

from 2.5 million in 2022 to 3.6 million 2030*

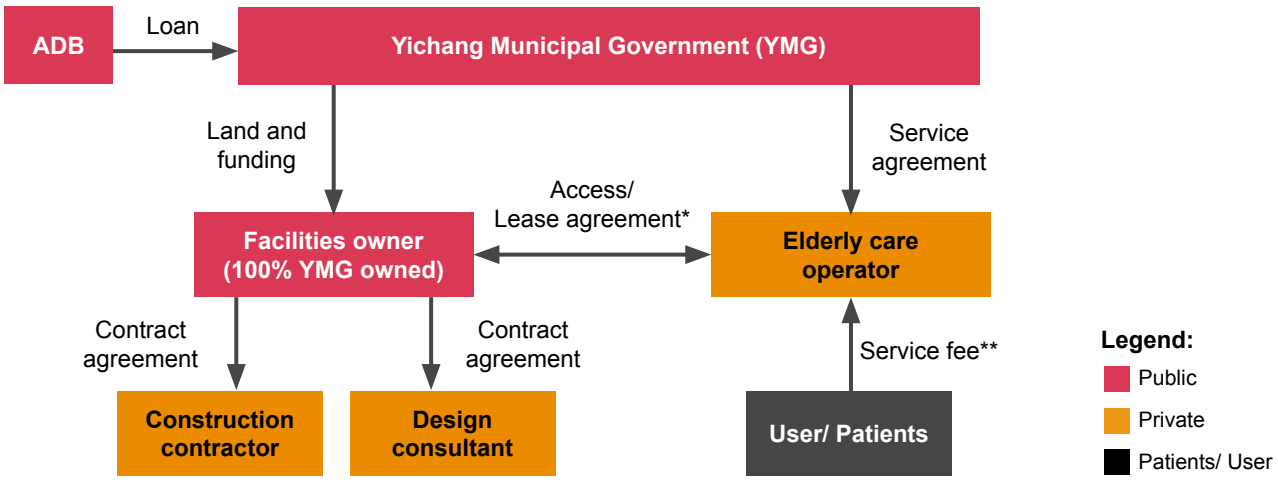
Note:
*Total population for Malaysia is 33.9 million in 2022 and forecasted to reach 36.7 million in 2030
Source: RHB regional thematic research on ageing in ASEAN (2023)

To support an ageing population, new PPP models can bridge the gap in social care provision for the elderly

Yichang integrated elderly care facilities, China

China has experienced a notable rise in its elderly population due to declining birth rates and increased life expectancy. In the next decade, approximately 300 million people in China will reach retirement age (50-60). Recognising the need for a sustainable elderly care system, there are currently plans to develop a comprehensive framework that involves government, private sector, and civil society collaboration to integrate healthcare and elderly care services.

Yichang (Hubei), which had a population of 3.9 million where over 1 million were older than 60 (around 25% of the city's population) in 2020, has been selected as one of the 42 pilot cities. The Yichang Municipal Government (YMG), in partnership with the Asian Development Bank (ADB) as a financier, is building a three-tiered elderly care system (home-based, community-based, and residential-based) using a 'Build-by-the-public' and 'Operate-by-the-private' model with an estimated total investment value of USD84.8 million. **This model combines public resources and private sector expertise to create a comprehensive and sustainable elderly care system, fostering collaboration between the government and private entities to meet the rising demand for elderly care services in China.**



Incentives

Attracting healthcare service providers instead of developers

YMG provides the land and oversees the construction, while the private sector equips, operates, and maintains the elderly care facilities, with a focus on attracting healthcare service providers for their expertise in delivering quality healthcare services to the elderly population.

Incentivising efficiency and quality

The private party assumes the investment responsibility of furnishing the elderly care facilities, in addition to receiving service fees. This incentivises efficient management and ensures the proper functioning and quality of the facilities.

Benefits

- Estimated internal rate of return to service operator is 11%
- Projected net present value of USD15.7mn
- Accessible integrated eldercare services and medical care support

Notes:
*Assumptions for the financial analysis assumed an operation period/contract agreement of 25 years. The financial analysis was built on the principle that a simple 'Access agreement' between the 'owner of the facilities' and the operator will grant the latter with rights to operate and charge fees to users without paying for the premises or paying a nominal fee.
**While the level of service fee assumed varies by the number of beds in a facility, the assumptions used for the financial analysis is as follows: Level 1 care - USD28 per bed per month, Level 2 care - USD138 per bed per month and Level 3 care - USD207 per bed per month.
Additional details can be found here: Pre-feasibility study for Cities Development Initiative for Asia and the Yichang Municipal Government.

Source: Elderly care system development in Yichang, PRC (2023)

Nurturing Malaysia's healthcare PPP ecosystem

When implemented through a proper legal and regulatory framework, PPPs not only can address some of Malaysia's most critical healthcare challenges, but also improve efficiency, accessibility and quality.

1 Establish a robust and clear regulatory framework for PPPs

While not a silver bullet, establishing a clear legal and regulatory framework is essential for an effective, sustainable, and implementable PPP model in Malaysia.

Key roles, performance measures, fee payments, investment returns and financing costs must be set out transparently, to establish clear financial targets, outcomes, expectations, and responsibilities from the outset - laying a strong foundation for building trust and collaboration between all parties involved.

2 Develop an equitable PPP model with appropriate financial incentives

A successful model ensures that partners are sufficiently incentivised to act in the best interest of the collaboration.

This involves having appropriate governance and financial incentives to enhance synergies and optimise resource integration between public and private health partners, ultimately delivering value-based care in a cost-effective manner.

3 Participation of key partners and stakeholders in implementation

In addition to health services delivery, PPPs must collectively involve key stakeholders in monitoring and execution.

This includes payors (e.g. insurance, corporates), investors, financiers, infrastructure and construction companies, government sponsors/bodies, patients (beneficiaries) and healthcare workforce. Engaging these key stakeholders throughout the process is crucial to identify-potential allies and address obstacles together for win-win outcomes.

4 Community engagement is critical

Ultimately, the community is the recipient of health services rendered, hence it is crucial to closely engage the community through a targeted communication strategy, to build public trust in PPPs.

In addition to public consultation and regular progress reporting, effectively communicating the health outcomes and successes of projects to the public is of paramount importance. This creates trust, rallies community support, and amplifies the effectiveness of PPP in healthcare.

Connect with us

At PwC, we're passionate about healthcare, and we work closely with the industry to develop ideas and explore opportunities that will shape the future of healthcare.

We are a community of solvers with commercial, operational, technological and financial expertise, coming together to deliver sustained outcomes across the value chain for healthcare providers, their customers, stakeholders and communities.

Yennie Tan
Deals Partner
Deals Strategy & Operations,
and Healthcare Leader
PwC Malaysia

yennie.tan@pwc.com

Taariq Murad
Tax Partner
Public Sector Leader
PwC Malaysia

taariq.murad@pwc.com

Redha Shukor
Consulting Partner
Operations & Transformations
PwC Malaysia

redha.shukor@pwc.com

Sean Soon
Senior Manager
Deals Strategy and Operations,
PwC Malaysia

sean.jw.soon@pwc.com

Manohar Johnson
Assurance Partner
PwC Malaysia

manohar.benjamin.johnson@pwc.com

pwc.com/my/en/services/deals/value-creation