

Kuwait Health Assurance Company (under establishment)

Executive Brief

March 7, 2011



Kuwait Health Assurance Company (KHAC)

- A Partnership between the GOK (24%), the People of Kuwait (50%), and a **socially responsible investor** (26%).
- KHAC's mandate is to realize a fully **integrated, for-profit, world-class** health system to manage the care of vast majority of expatriates in Kuwait.
- When successfully implemented, KHAC will be an evidence based, **best practice** – a **new model** that will be emulated throughout the region.
- Today's goal is to introduce this project to **potential investors** – thank you for your interest.

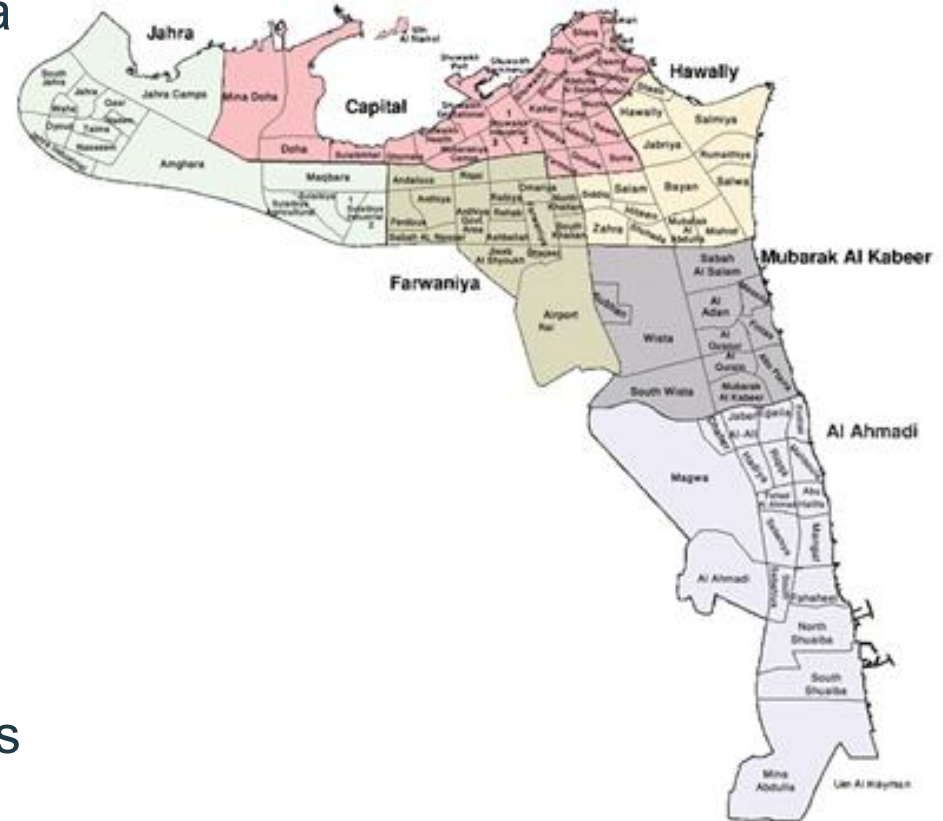


Kuwait Health Assurance Company (KHAC)

- KHAC will establish a dedicated **Greenfield** Healthcare System, including a network of **15 primary** care centers and **3 secondary** care hospitals across Kuwait.
- For **tertiary** care services, KHAC will be contracting with the Ministry of Health under a **fixed** percentage of premiums.
- KHAC will be **developing** and **selling** its own comprehensive health plans to its primary Target Market.
- The Target Market includes select categories of expatriates. However, KHAC will be open to **Kuwaiti Nationals and others**.

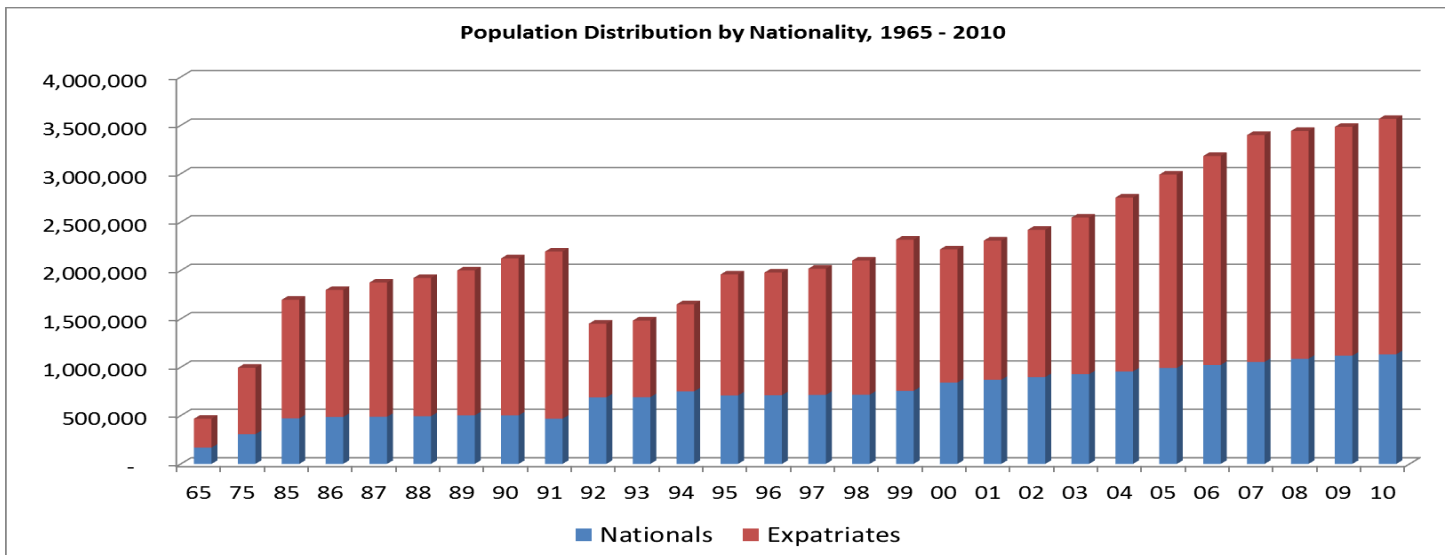
Kuwait...Socioeconomic Characteristics

- Out of 17,820 Km², the urban area of Kuwait is approximately 5%. Land is very expensive.
- Six governorates with most social infrastructure services organized and managed along that geopolitical demarcation.
- Kuwait's Parliament approved a five year economic development plan worth KD 37 Billion...KHAC is one of the first projects on this agenda.



Kuwait...Population Characteristics

- ▶ **To date**, Expatriates in Kuwait account for approximately 2/3 of the population. In 2010, Expatriates accounted for 68.22% (1.13 MM Nationals to 2.43MM Expatriates = 3.56MM Residents).
- ▶ **To date**, Male Expatriates in Kuwait account for approximately 2/3 of the Expatriate Population. In 2009, Male Expatriates accounted for 65.4% (1.56MM Expatriate Males).
- ▶ **To date**, approximately 75% of the Expatriate Population is within the 20-49 years age groups. In 2009, 76.2% of Expatriate Males and 68.5% of Expatriate Females were within that age group.
- ▶ **To date**, approximately 1% of the Expatriate Population is above the age of 65 years. In 2009, 1% of Expatriate Males and 1.2% of Expatriate Females were above that age.



Kuwait...Expatriate Residency Status

For the Purpose of this Project, Expatriates in Kuwait were classified to six major residency groups:

1. Expatriate Dependents of Kuwaiti Nationals.
2. Expatriates Classified as Stateless.
3. Expatriates Who Work for the Government of Kuwait.
4. Expatriates who Work in Agriculture and Fisheries.
5. Expatriates who Work within Households.
6. All Other Expatriates.

To date, the 6th residency group “All Other Expatriates” has accounted for approximately 62% of all Expatriates in Kuwait. In 2010, the total number of Expatriates which fell in that Residency Group was at least 1.5MM.

Between the years 2000 and 2010, its numbers experienced solid CAGRs as follows:

All Other Expatriates – CAGR				
2000-2005	2000-2010	2005-2010	2006-2009	2006-2010
4.41%	5.35%	6.30%	7.81%	5.18%

Kuwait...Who Pays for Expatriate Healthcare?

✦ Prior to January 31, 1999:

- ❖ Only Copayments for select episodes of care (MRI, CT Scan, Lithotripsy, etc...)

✦ January 31, 1999 – Law Number 1/1999

- ❖ All Expatriates have to have a **health insurance** policy from private sector insurers, or a **health assurance** policy from the MOH or qualified private sector providers to be able to attain residency permits in the Country.
- ❖ MOH Set the ceiling of the policy premium at KD 50 PMPY with the exception of expatriates who belong to categories 1 through 5 noted earlier (nominal premium of 5 KD PMPY).

✦ From 2006 to date:

- ❖ All Expatriates have to have only the MOH health assurance policy to attain residency permit even if they carry any other form of commercial insurance.

KHAC...Project Background

🌿 Law No 1/1999:

- ❖ All expatriates should have health insurance or assurance coverage.
- ❖ Insurance coverage should be through private sector entities.
- ❖ Provision of healthcare services should be through private sector providers.
- ❖ Ministry of Health should regulate the premiums and qualify the providers.

🌿 Failed Implementation Attempts:

- ❖ 2000 – 2002: Insurance regulatory vacuum and private sector with no capacity.
- ❖ 2002 – 2006: MOH as provider with private sector face value policies.
- ❖ 2006 – to date: MOH as the insurer and provider of care.

🌿 Reform and Implementation Through Public Private Partnerships:

- ❖ Public sector to provide required facilities and co-ownership (24%:50%:26%)
- ❖ Private sector to invest and manage.
- ❖ Public Shareholding Companies the vehicle of choice.

KHAC...The Company

🌿 KHAC's Mandate:

- ❖ KHAC Will be charged primarily with managing the healthcare needs of the **majority of expatriates (Target Market)** living in Kuwait through establishing a dedicated **Greenfield Healthcare System** which sells **its own healthcare plans**, and provides, or manages the provision of, the complement of health benefits it covers.
- ❖ A company performing the above noted scope of services is usually referred to as a Health Maintenance Organization or HMO. By definition, an HMO is a Managed Care Organization that for a (1) **predefined population delivers or manages** the delivery of a (2) **predefined set of services**, for a (3) **predefined price**, for a (4) **predefined period**.

KHAC...(1) Predefined Population (1/2)

🌿 KHAC's Target Market and Geography:

- ❖ KHAC's Target Market is all expatriates in Kuwait which belong to Category 6 noted earlier. In 2010, this Category represented approximately 62% of Expatriates in Kuwait.

🌿 KHAC's Target Market Geography:

- ❖ Naturally, KHAC's Target Market is differentially spread across all six governorates and has experienced **differential growth rates and differential healthcare utilization rates**.
- ❖ Accordingly, and in an effort to maintain the current healthcare services access methodology and modalities, KHAC is factored to develop and operate three geographical managed care operations, or three HMOs as follows:
 - **Northern Health Region or Jahra HMO** – Covering Jahra Governorate and select areas of Capital (20%).
 - **Central Health Region or Farwania HMO** – Covering Farwania, Hawalli, and Remainder of Capital Governorates.
 - **Southern Health Region or Ahmadi HMO** – Covering Ahmadi and Mubarak Al Kabeer Governorates.

KHAC...(1) Predefined Population (2/2)

🌿 KHAC's Target Market Projections:

- ❖ **Governorate Specific** Target Market projections were implemented adopting conservative growth estimates ranging between 2.5% to 3%. Historical growth rates ranged between 4% and 7%.

🌿 KHAC's Target Market Share Scenarios:

- ❖ Three Market Share Scenarios were adopted as follows:
 - **Worst Case** – KHAC will be able to attract **70%** of its Target or Eligible Market.
 - **Most Likely Case** – KHAC will be able to attract **75%** of its Target or Eligible Market.
 - **Best Case** – KHAC will be able to attract **80%** of its Target or Eligible Market.

KHAC Target Population Market Share Case Scenarios, 2015-2024

	2015 - (E)	2016 - (E)	2017 - (E)	2018 - (E)	2019 - (E)	2020 - (E)	2021 - (E)	2022 - (E)	2023 - (E)	2024 - (E)
Eligible Market Size	1,731,596	1,781,542	1,832,937	1,885,822	1,940,242	1,996,240	2,053,862	2,113,157	2,174,173	2,236,959
Worst Case Scenario (@ 70% Market Share)	1,212,117	1,247,080	1,283,056	1,320,076	1,358,169	1,397,368	1,437,704	1,479,210	1,521,921	1,565,872
Most Likely Case Scenario (@ 75% Market Share)	1,298,697	1,336,157	1,374,703	1,414,367	1,455,181	1,497,180	1,540,397	1,584,868	1,630,630	1,677,720
Best Case Scenario (@ 80% Market Share)	1,385,277	1,425,234	1,466,350	1,508,658	1,552,193	1,596,992	1,643,090	1,690,526	1,739,338	1,789,567

KHAC...(2) Predefined Set of Services

🌿 Developing its Health Plan:

- ❖ Which meets, at a minimum, the scope of primary, secondary, and tertiary healthcare services covered under Law No. 1/1999.
 - KHAC will need to have its health plan **approved by the MOH**.

🌿 Providing or Managing the Provision of Healthcare Services:

- ❖ **Providing Care Function** – KHAC will need to establish a network of 15 Primary Care Centers and 3 Secondary Care Hospitals across the three Health Regions noted earlier.
- ❖ **Managing the Provision of Care** – KHAC will contract with the MOH under a flat percentage of the PMPY premium it collects (5%), for the MOH to provide Tertiary Care as well as other services that private sector is not permitted to provide.
 - KHAC will work with the MOH on developing a **contractual agreement**.

KHAC...(3) Predefined Price

Per Member Per Year Premium:

- ❖ The MOH has **preapproved** the following universal annual premiums, which employers have to shoulder, for the initial 10 years of KHAC operations (2015 – 2024) as follows:

KHAC Annual Premium PMPY Rates ...KD									
2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
130	130	150	150	170	170	180	180	190	190

Per Visit Copayment:

- ❖ The MOH has **preapproved** the following per visit copayment, which the expatriate has to shoulder, for the initial 10 years of KHAC operations (2015 – 2024) as follows:

KHAC Annual Copayment Rates, Per Visit ...KD			
	2015 – 2018	2019 - 2022	2023 - 2024
Primary Care	2.5	3.0	3.5
Emergency Room	4.0	5.0	5.0

KHAC...(4) Predefined Period

🌿 Inflation Factor:

- ❖ If officially released annual inflation rates **exceed 6%**, KHAC can **automatically** increase its premiums and copayments as follows: Rate Increase = Official Inflation Rate (if > 6%) less 6%.

🌿 Linked to Residency Permit or Renewal:

- ❖ The Health Plan coverage period will be linked to the **residency renewal** (usually annual).
- ❖ Premiums and Rates are prorated to reflect the time of issuance as well as duration of the residency permit and adjusted accordingly.

KHAC...Greenfield Healthcare System Facilities

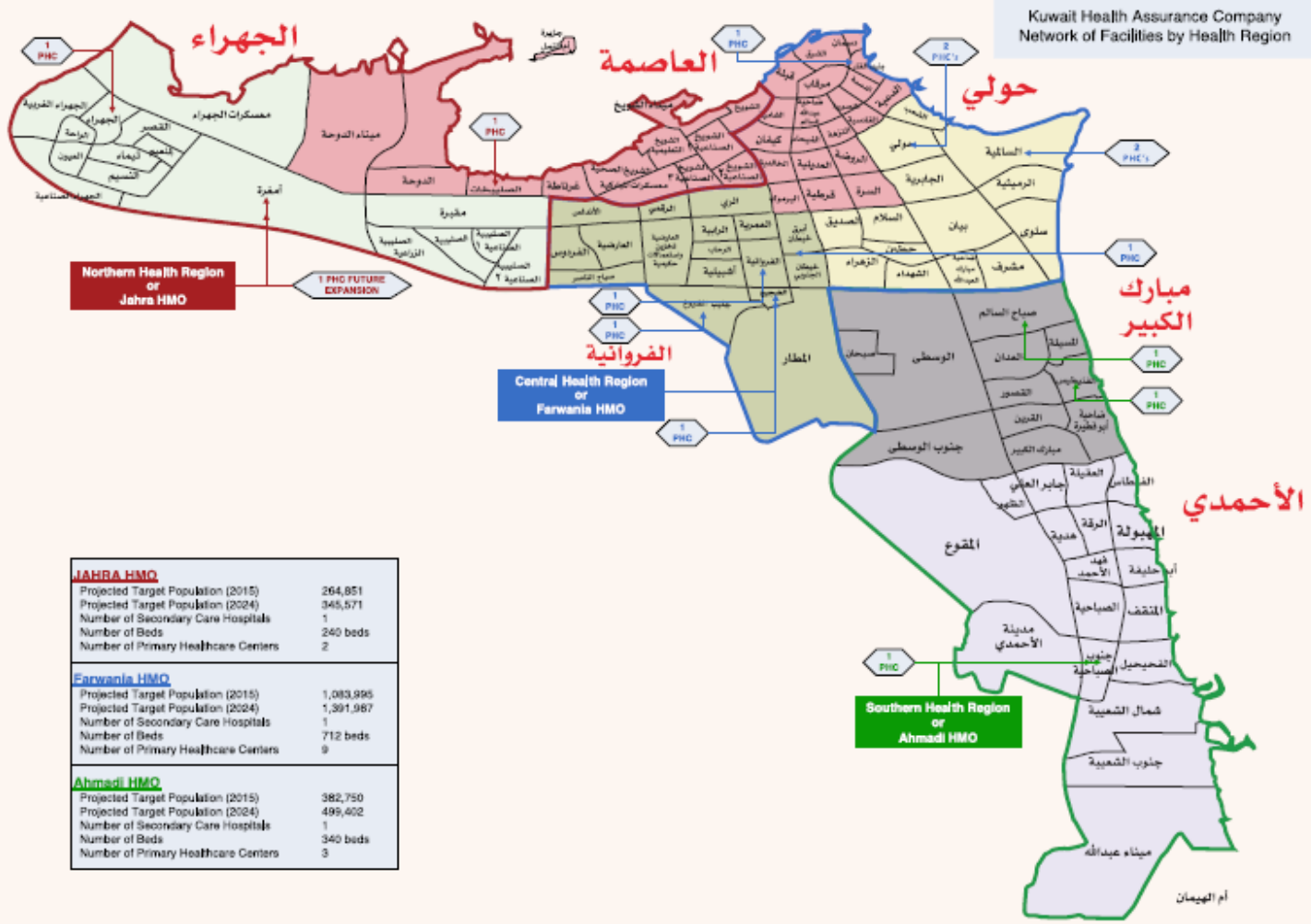
Projecting the Need

- ❖ Eight Years of historical utilization data were assessed (2002 – 2009).
- ❖ Utilization Rates which are **Expatriate Specific**, **Governorate Specific**, and **Clinical Specialty Specific** were calculated covering all care settings and episodes of care.
- ❖ The **single** or **second highest** utilization rates reported, at the governorate and clinical specialty levels, were assumed to represent the **basis for future utilization**.
- ❖ Utilization Rates projected under the **Best Case Scenario** market share were used to project the size, clinical specialties, Clinical and support staffing, and number of facilities required.

Complement of Healthcare Facilities Required

- ❖ **Northern Health Region or Jahra HMO** – a 240 bed general hospital and 3 PHCs.
- ❖ **Central Health Region or Farwania HMO** – a 712 bed general hospital and 9 PHCs.
- ❖ **Southern Health Region or Ahmadi HMO** – a 340 bed general hospital and 3 PHCs.

KHAC...Greenfield Healthcare System Facilities



KHAC...Staffing Requirements

Projecting the Need

- ❖ The **Median of Medical Group Management Association** productivity rates were utilized to determine clinical staffing requirements.
- ❖ Established standards were implemented to determine clinical support staffing requirements.
- ❖ All non clinical support services were factored to be outsourced and accounted for in the financial model.

PHC Staffing Requirements

- ❖ All PHCs will be working 16 hours per day.
- ❖ 3,433 FTEs were calculated, of which 814 are physicians and 1,092 are technicians and nurses.

Hospital Staffing Requirements

- ❖ 4,922 FTEs were calculated, of which 648 are physicians and 2,919 are technicians and nurses.

Corporate Staffing Requirements

- ❖ 69 FTEs were calculated to represent corporate KHAC staff.

KHAC...Capital Requirements

KHAC Capital Requirements			
Capital Costs			
Market Share Scenarios	Worst Case	Most Likely Case	Best Case
1. Capitalizable Capital Expenditures			
Total Construction and Professional Services Cost	175,775,676	159,796,069	143,816,462
Total Non-Medical Equipment Cost	4,486,448	4,078,589	3,670,731
Total Communication Systems Cost (Information Technology)	25,397,418	23,088,562	20,779,706
Total Vehicles Cost	1,322,682	1,202,438	1,082,194
Total Medical Equipment Cost	66,364,747	60,331,588	54,298,429
Total Parking Structure Costs	25,782,570	23,438,700	21,094,830
Subtotal - Facility Costs	299,129,541	271,935,946	244,742,352
Facility Costs Contingency	8,782,068	7,965,248	7,168,723
Total Cost of Land Plots for 12 PHCs	18,671,708	16,236,268	14,612,641
Total Facility Capitalizable Costs	326,583,316	296,137,462	266,523,715
2. Non Capitalizable Pre-operating Expenditures			
Staff Related Expenses	11,912,899	11,075,239	10,237,579
Marketing Related Expenses	1,535,711	1,396,101	1,256,491
Communication Related Expenses	1,151,783	1,047,075	942,368
Professional Entities Related Expenses	2,303,566	2,094,151	1,884,736
Other Expenses	767,855	698,050	628,245
Subtotal - Pre-operating Expenses	17,671,814	16,310,616	14,949,418
Pre-operating Expenses Contingency	767,855	698,050	628,245
Total Pre-operating Expenses	18,439,669	17,008,666	15,577,663
3. Working Capital	4,533,819	4,814,806	5,088,499
Total Capital Cost	349,556,805	317,960,934	287,189,877

KHAC...Income Statement

KHAC - Income Statement - Most Likely Case Scenario - KD

Description	2015 - (E)	2016 - (E)	2017 - (E)	2018 - (E)	2019 - (E)	2020 - (E)	2021 - (E)	2022 - (E)	2023 - (E)	2024 - (E)
Revenue:										
Revenue from Operations										
Total Premiums	168,830,611	173,700,384	206,205,430	212,155,027	247,380,824	254,520,567	277,271,430	285,276,223	309,819,622	318,766,708
Total Co-Payment - PHC	7,783,960	8,005,425	8,233,232	8,467,564	10,450,332	10,747,875	11,053,946	11,368,789	13,641,434	14,030,115
Total Co-Payment - Hospital	2,605,457	2,680,789	2,758,310	2,838,085	3,650,222	3,755,822	3,864,492	3,976,322	4,091,404	4,209,834
Total Revenue from Operations	179,220,028	184,386,598	217,196,972	223,460,676	261,481,378	269,024,265	292,189,867	300,621,334	327,552,461	337,006,658
Other Revenue										
Total Other Revenue	-	-	-	-	-	-	-	-	-	-
Total Revenue	179,220,028	184,386,598	217,196,972	223,460,676	261,481,378	269,024,265	292,189,867	300,621,334	327,552,461	337,006,658
Expenditure										
Staff Expenses										
Total Staff Expenses	69,880,244	74,845,258	80,731,033	86,164,064	92,537,389	98,367,791	104,840,151	111,190,034	118,274,920	122,595,735
Variable Expenses										
Total Other Direct Expenses	44,765,832	47,739,410	52,300,115	55,753,873	60,908,892	64,914,937	69,976,092	74,595,172	80,358,643	85,683,667
Total Direct Expenses	114,646,076	122,584,668	133,031,148	141,917,937	153,446,281	163,282,728	174,816,244	185,785,206	198,633,563	208,279,401
Indirect Expenses										
Total Indirect Expenses	11,357,268	17,699,384	21,583,563	24,296,013	26,607,695	28,148,592	29,872,646	30,916,912	33,750,104	35,012,655
Total Expenses	126,003,345	140,284,052	154,614,711	166,213,950	180,053,976	191,431,320	204,688,890	216,702,118	232,383,667	243,292,057
EBITDA	53,216,683	44,102,546	62,582,261	57,246,726	81,427,402	77,592,944	87,500,977	83,919,216	95,168,794	93,714,601
Depreciation & Amortization	39,994,087	25,193,738	25,721,270	27,614,247	27,889,715	29,468,331	19,116,691	17,938,129	18,449,268	19,557,123
Net Profit	2,895,454	9,944,989	28,779,008	23,833,723	48,619,215	45,718,383	64,965,072	62,682,033	72,883,550	70,449,605

KHAC...Profitability Indicators

Kuwait Health Assurance Company			
Profitability Indicators			
Scenario Simulation	Worst Case	Most Likely Case	Best Case
Discount Rate	15.00%	15.00%	15.00%
Equity IRR	15.62%	20.26%	25.32%
Equity Value	7,686,366	63,826,066	123,546,903
WACC	12.20%	12.20%	12.20%
Project IRR	14.52%	18.48%	22.82%
Project Value	40,807,212	109,233,803	182,611,280
Pay Back Period	9.05	7.81	6.58

KHAC...GOK/MOH Allowances

- ☛ Health System Designation
- ☛ Three Land Plots
- ☛ Clinical Staff Mobilization
- ☛ Group Purchasing Option
- ☛ Generic Pharmaceuticals and Unit Dose Dispensing
- ☛ Licensure, Certification, and Delineation of Privileges
- ☛ Access to MOH Target Market Medical Records

KHAC...Strategic Investor Mandate

- Social Responsibility and Accountability
- Realize Exemplary Health Plan
- Realize the Project on Budget and On time
- Realize an Accredited Health System

KHAC...Strategic Investor Challenges

🌿 The Pre-Operating Period

- ❖ KHAC is an Unprecedented Endeavor in the GCC and MENA – A Blend of International and Regional Technical Consortium is Inevitable
 - Project and Program Management
 - Staff Model Managed Care Operating Environment
 - Healthcare Information Technology Integrated with TPA Back Office System
 - Healthcare Architecture, Engineering, and FF&E Planners
 - Fully Documented Management and Operating Systems (Management Blueprints)
 - Developing KHAC's Corporate Management Structure

Kuwait Health Assurance Company (KHAC)

- ❧ KHAC will be a fully **integrated, for-profit, world-class** health system managing the care of the vast majority of expatriates: approximately half of the population of Kuwait.
- ❧ When successfully implemented, KHAC will be an evidence based, **best practice** – a **new model** that will be emulated throughout the region.
- ❧ The successful investor will have both
 - ❖ The **responsibility** for realizing the enterprise, and
 - ❖ The **opportunity** for significant **economic return**.



The Advisory Group

 Thank You for Your Attendance