IQVIA™ MARKET PROGNOSIS
2017-2021

Asia/Australia – Indonesia

A special edition in conjunction with:
CPhI south east asia
FOREWORD

IQVIA and CPhI are pleased to bring you our co-branded special Market Prognosis report sharing our view of the future of the Indonesia pharma market. Both CPhI and IQVIA consider that such information is key for the growth and development of the pharma industry and believe that this report will provide valuable insight as you look to develop your business in Indonesia.

The report provides an evidence-based outlook for Indonesia based on the knowledge of our country experts who carry out extensive research into key business and healthcare events and apply this to a gold standard historical view of the market.

We are excited to share this valuable country information with you and look forward to welcoming you to CPhI SouthEast Asia in Jakarta.

CPhI and IQVIA team
MARKET OVERVIEW AND FORECASTS

Market Synopsis

• The Indonesian pharmaceutical market is forecast to grow at a compound annual growth rate (CAGR) of 6.3% (±2.5%) between 2016 and 2021, reaching Rp82,138 billion by 2021.

Business Environment

• Gross domestic product (GDP) is forecast to average 5.2% in 2017. The economy will be supported by relatively buoyant private consumption. A sharp slowdown in China’s economy in 2018 will exert pressure on exports, albeit only temporarily, and growth will average 5.0% over 2018-2021. Inflation will average 4.4% in 2017. Inflationary pressures will return in 2018 owing to sharper rupiah weakness, but will abate and stabilize again in 2019-2021. The rupiah will be relatively stable against the US dollar in 2017, but it will depreciate in 2018-2019 as investors scale back exposure to emerging markets in the light of China’s economic slowdown. A modest recovery is expected from 2020 onwards, with the rupiah reaching Rp13,800:US$1 by 2021.

• Three years into his term, Indonesia’s president, Joko Widodo (known as Jokowi), has achieved a degree of economic stability. His primary goal during his tenure is to strengthen the economy through improved infrastructure and increased foreign investment. He is also keen to develop the country’s manufacturing base, which is small relative to GDP, when compared with those in many Association of South East Asian Nations (ASEAN) countries. A key part of the administration’s strategy is to improve the regulatory environment so that Indonesia can become more attractive to investors. Reforms implemented since 2015 have had a positive impact, and have seen Indonesia rise 15 positions in the World Bank’s Doing Business index. The next presidential and parliamentary elections are due in 2019.

Healthcare Provision

• Indonesia’s healthcare system is fragmented and underfunded, and delivery of healthcare services is patchy and inequitable across the country’s complex geography. A new National Health Insurance (NHI) program will, over time, lead to improvements in the provision and distribution of healthcare services, although major financial, administrative and logistical hurdles will need to be overcome.

• At just 2.8% of GDP, health expenditure remains low by international standards, but will rise as the government increases funding for the new NHI scheme, and as affiliate contribution rates are increased. With the government’s share of total health expenditure accounting for just 38%, private health spending – mainly out-of-pocket - still accounts for the majority of healthcare spending. Rising NHI coverage will drive a reduction in out-of-pocket spending over the forecast period.

• Supported by a significant increase in the health budget since 2016, health policy will focus on improving the health status of the population by strengthening health promotion and disease
prevention, improving healthcare services, and reducing inequalities, as well as implementing the NHI scheme across the remainder of the population. Special attention will be directed towards the strengthening of healthcare provision in remote areas.

- Some 70% of the population had been enrolled into the NHI scheme by the middle of 2017. While enrolment will continue progressively, achieving universal coverage by the original target date of 2019 is now considered unlikely. Coverage rates are expected to reach 85-90% in 2019, with full coverage now expected by 2022. The scheme’s finances are a subject of growing concern, and further injections of funds, as well as premium hikes, are anticipated. Attention to cost management will also be stepped up.

- The limitations of NHI coverage will mean continuing demand for private health insurance. In the longer term, the emergence of a market for NHI top-up cover under a ‘coordination of benefits’ (COB) scheme could increase demand for private health insurance.

- Under the e-catalogue system, drug purchasing for public hospitals and health centers will continue to be dominated by low-cost generics. Procurement procedures lack transparency and predictability, although manufacturers are now able to gauge anticipated demand based on previous sales through the mechanism.

- The government will focus on upgrading and expanding the primary care infrastructure – notably community health centers (puskesmas), which are intended to act as gatekeepers under the NHI system. However, staff shortages will undermine the performance of community health centers and private facilities will remain the providers of choice for middle-to-high income earners.

- The hospital sector will continue to expand, driven mainly by investment in the private hospital sector. As the roll-out of the NHI scheme continues, overcrowding will remain a problem in the public sector, despite growing participation of the private sector in the scheme.

**Prescribing and Dispensing**

- The introduction of NHI has triggered significant changes in prescribing practices in the public sector, where prescribing is governed by the national formulary, FORNAS. Regulation of prescribing in public hospitals is being tightened and clinical guidelines are being enforced more strictly. Doctors in private hospitals and clinics still retain a greater deal of prescribing freedom.

- Listing procedures under the FORNAS are being streamlined under a new electronic submission procedure, and growing attention is being paid to cost effectiveness and budget impacts in the FORNAS selection process. Pharmacoeconomic evaluation will be required for expensive innovative products as part of the FORNAS listing process.

- Formularies in the private sector are extensive, and will continue to list original brands and branded generics. Formularies will be increasingly influenced by the FORNAS as more NHI patients receive treatment in private hospitals.

- The roll-out of the NHI scheme has triggered a shift in dispensing, with prescription drugs increasingly dispensed by puskesmas and primary care clinics, as well as hospitals.
Pricing

• While there is no formal price control system, prices in the public sector will be controlled by ceiling prices for products listed on the national formulary and purchased through the e-catalogue.

• Pressure on NHI drug prices will remain intense, especially for products with competition from local manufacturers of unbranded generics. Tendering for the supply of drugs under the e-catalogue procurement system has driven down NHI drug prices significantly and will ensure that pressure on NHI drug prices is maintained.

• While prices in the private sector remain free from formal control, transparency in public sector prices will encourage private providers to look for comparable prices. Pressure on private sector prices will increase as more private hospitals participate in the NHI scheme.

• Under the e-catalogue purchasing system, demand for discounts has increased in the public sector, and is also growing in the private sector. Margins are being squeezed by falling prices and are vulnerable to currency devaluations due to the high import content, with around 90% of active pharmaceutical ingredients (APIs).

Regulatory Environment

• Efforts are being made to strengthen the Indonesian regulatory agency, BPOM. A draft law tabled in 2016 aims to establish a stronger regulatory framework and will serve as an umbrella for specific regulations governing the supervision of drugs and food.

• Regulations implemented in 2016 have simplified aspects of the drug registration process. Further reforms targeting a facilitation and acceleration of the registration procedures are under consideration. Progress will depend on the ability of the agency to increase staffing levels and expertise.

• Efforts are being stepped up in a bid to guarantee the quality, safety and efficacy of drugs prescribed under the NHI scheme. Growing attention is also being paid to improving oversight and combating counterfeiting: a new division is being set up at the BPOM tasked with fighting illegal and counterfeit products.

• Amendments to Indonesia’s Patent Law came into effect in 2016. While the amendments clarify provisions of the existing law, they weaken certain provisions, notably by granting more exclusions from patent infringement, by narrowing patentable subject matter through the limiting of ‘second use’ protection, and by an expansion of the scope of compulsory licenses.

Pharmaceutical Business Environment

• Improving access to healthcare, rapid economic growth and rising incomes provide long-term growth potential, but the current business environment remains challenging. While the NHI scheme is expanding access to healthcare and driving demand for medicines, rising volumes are
being offset by downward pressure on prices, and the scheme has had a negative impact on many companies to date.

- The leading domestic companies, especially the state-owned enterprises, will have the advantage in the NHI market and are investing in new facilities. As low prices on NHI business put pressure on their margins, companies are looking for new business opportunities in areas including OTC products and herbal medicines, while some pursue opportunities in higher-margin niche markets, including biosimilars. The government would like to see a transformation of Indonesia’s pharmaceutical industry from a formulation-based to a research-based industry in the longer term.

- While API production was among the sectors that were opened up to full foreign ownership in 2016, full foreign ownership of drug manufacturing enterprises is still prohibited, which will continue to act as a constraint on levels of foreign investment.

- Generics will be the main beneficiary of rising demand for medicines under the NHI scheme. Volume growth will be spearheaded by sales of unbranded products, though branded generics will continue to dominate the sector in value terms. Local company interest in biosimilars is growing and biosimilar launch activity has begun to increase following the introduction of guidelines for the registration of biosimilars.

- Indonesia’s complex geography poses major challenges for distributors, who are stepping up capabilities to expand their geographical reach. Payment delays from public hospitals are lengthening as increasingly stringent claim verification delays hospital reimbursement.

- While the chain pharmacy segment will continue to expand, the environment will remain more challenging for independent pharmacies. Retail pharmacies under contract with BPJS Health will struggle to make significant profits on their NHI dispensing business. More independent pharmacies are looking to build up their business in OTC products, while some are expected to close or sell out to chains.

- Growth in the OTC market slowed following the implementation of the NHI, but a growing number of domestic and foreign companies are now pushing into the OTC market in a bid to offset the impact of pressure on the price of their prescription drugs, while retail pharmacies are offering a growing choice of OTC products to compensate for declining sales of prescription drugs under the NHI.

- Promotional practices will come under closer scrutiny. New regulations aim to improve transparency and reduce unethical practices, although much will depend on their enforcement. While the role of the medical representative has reduced in the public sector, and a growing number of companies have established key account managers, physician detailing will remain a key sales strategy in the private sector.
Total Market Forecasts 2017-2021

Summary of the Prognosis

All values shown are in local currency. Sales are reported at the ex-manufacturer price level based on invoice pricing that does not capture discounts and rebates.

IQVIA captures 70% of the total pharmaceutical market through the retail pharmacy, drugstore and hospital audit panels.

With the launch of the Q2 2017 data, the Indonesian retail pharmacy and hospital sector audit panels have undergone an increase in panel size and an improvement in projection methodology (see Forecasting Data and Methods). As a result of the changes, the coverage of the combined retail pharmacy, drugstore and hospital panels has increased from 37% to 70%. Backdata for the new retail pharmacy and hospital panels are available to Q1 2015. Because of the resulting significant trend break between 2014 and 2015, Market Prognosis shows annual data from 2015 onwards only. The former Indonesia Total Market Audit has been discontinued.

The prognosis incorporates an estimate of the value of the non-panel sector and, for the purpose of this forecast, assumes that this will grow in line with the rest of the market and hold a market share of 30% throughout the forecast period.

The total pharmaceutical market is expected to grow at a CAGR of 6.3% (±2.5%) during the period 2016-2021.

Key Issues Affecting Market Growth

• The private hospital sector will continue to expand, driven by a move by both new entrants and large corporate hospital operators to establish new facilities outside Java and the major cities. Improvements will also be made to the public healthcare infrastructure. The government has increased healthcare funding significantly since 2016, which will support investment in the expansion and improvement of public community health center and hospital networks.

• Over 178 million people (close to 70% of the population) had been enrolled into the National Health Insurance (NHI) system by July 2017, up from 165 million in mid-2016. Enrolment will continue progressively through the remainder of the forecast period, although signing up the remaining 80 million, which include salaried employees and workers the informal sector, is expected to be more difficult.

• The annual e-catalogue tendering process will maintain pressure on NHI drug prices, driving prices down with each tendering round. Competition with unbranded generics is eroding the price of off-patent original brands and branded generics listed in the e-catalogue. Manufacturers of single-source brands are being forced to give significant ground on price in order to secure the inclusion of those products in the e-catalogue.
• Regulation of prescribing in public hospitals is being tightened and treatment guidelines are being enforced more strictly to ensure adherence to the national formulary (FORNAS) and clinical pathways, and secure reimbursement under the NHI system, as claim verification by BPJS Health, the agency overseeing the scheme, is being stepped up. At the same time, growing attention is also being paid to cost-effectiveness in the FORNAS selection process.

• In the longer term, the emergence of a market for NHI top-up cover under a ‘coordination of benefits’ (COB) scheme could increase demand for private insurance. Provision of top-up cover could also benefit manufacturers of original brands if supplementary health plans provide opportunities for the use of drugs which do not feature on the national formulary.

Change in the Prognosis

The five-year outlook for Indonesia has been revised downwards in the short and medium term, compared to the previous forecast published in March 2017. The following changes have been made to the forecast:

Baseline Changes

• The significant expansion of the retail pharmacy and hospital panels implemented with the Q2 2017 data, and the resulting change in the historical data series and trend, mean that baseline projections for the two sectors are not comparable to those in the previous forecast.

• Retail pharmacy and hospital sector: The retail pharmacy and the hospital sector both saw a slowdown in volume growth in the first half of 2017, bringing down volume growth for the year when compared to 2016. At the same time, both sectors saw increases in the average price per standard unit, raising price growth for the year when compared to 2016. While the baseline projections for the retail sector are for relatively steady volume and price growth, hospital sector baselines project a gradual increase in volume growth, and a gradual slowdown in price growth.

• Drugstore sector: Significantly lower than expected volume growth in the drugstore sector in the first half of 2017 has led to a downward adjustment of the volume growth baseline for the sector.

Event Changes

• The positive impact on hospital sector volume, and negative impacts on retail and drugstore sector volume from the event ‘Continuing roll-out of the NHI system’ have been reduced, as the majority of the population has now been enrolled, and enrolment of the remainder of the population is expected to be more difficult.

• A negative impact on hospital volume has been added to the event ‘Regulation of prescribing under the NHI’, as prescribing regulation in public hospitals is being tightened and clinical guidelines are being enforced more strictly.