



# The value of one riyal

**Understanding healthcare  
financing in Saudi Arabia**

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# Introduction

The healthcare system in Saudi Arabia is undergoing a period of significant transformation, driven by both internal and external pressures to enhance its efficiency, sustainability, and accessibility. This paper delves into the intricate details of healthcare expenditure within the Kingdom, presenting a comprehensive analysis of how financial resources are allocated, managed, and utilized across various sectors of the healthcare system. By examining government spending, private sector contributions, and out-of-pocket expenses, this paper aims to provide a nuanced understanding of the current state of healthcare financing in Saudi Arabia and its future trajectory.

Saudi Arabia's healthcare system has historically been characterized by substantial government investment, aimed at providing comprehensive healthcare services to its citizens at little to no cost. The Ministry of Health (MOH) has been the primary financier, channeling a significant portion of the national budget into the healthcare sector. However, with rising costs driven by an aging population, increased prevalence of chronic diseases, and rapid advancements in medical technology, the sustainability of this funding model is increasingly being questioned. This paper explores the dynamics of these rising costs and their implications for the government budget and household finances.

A critical aspect of this paper is to comprehensively analyze the expenditure patterns in Saudi Arabia's healthcare system and understand how these patterns impact its long-term sustainability. This study aims to provide a detailed examination of where and how financial resources are allocated within the healthcare sector, scrutinizing the proportions spent on public versus private healthcare, and the burden of out-of-pocket expenses on households. By understanding these expenditure patterns, the paper seeks to illuminate the sustainability challenges facing the system.

Furthermore, the paper delves into the various sources of revenue that support healthcare financing in the Kingdom, including government transfers, private sector contributions, voluntary health insurance, and out-of-pocket (OOP) payments. This analysis will highlight the dynamic interplay between these funding sources and their implications for the overall financial health of the system. The findings will offer insights into the effectiveness of current funding mechanisms and provide a foundation for discussing potential

reforms needed to ensure the system's sustainability amidst rising costs and evolving healthcare needs.

This paper explores the intricate financial landscape of Saudi Arabia's healthcare system, delving into how expenditure patterns impact overall sustainability. First, it examines the current healthcare landscape, highlighting key trends and data. Next, it analyzes the financial ecosystem, focusing on revenue sources and expenditure distribution. Finally, it discusses the challenges and opportunities for ensuring long-term sustainability. This comprehensive approach provides a thorough understanding of the financial dynamics at play and their implications for the future.

Ultimately, this paper aims to contribute to the ongoing discourse on healthcare reform in Saudi Arabia, offering evidence-based recommendations for policymakers, healthcare providers, and stakeholders. By understanding the financial underpinnings of the healthcare system, stakeholders can make informed decisions that align with the broader goals of Vision 2030, ensuring that the Kingdom's healthcare system remains resilient, efficient, and capable of meeting the evolving needs of its population.

Understanding the value of one riyal in Saudi Arabia's healthcare sector is crucial for several reasons, all of which contribute to better budgeting, policy formulation, and resource allocation within the healthcare system.

First, knowing the value of one riyal helps in prioritizing healthcare initiatives and investments. By evaluating what can be achieved with a single riyal—whether it funds medications, treatments, or preventive measures—policymakers can identify and prioritize projects that provide the highest return on investment in terms of health outcomes. This understanding enables more effective decision-making, particularly when faced with budget constraints.

Second, this knowledge assists in better budgeting within healthcare institutions. It allows administrators to allocate resources efficiently, ensuring that critical areas such as emergency care receive appropriate funding without compromising overall service quality. Understanding the value of one riyal aids in identifying cost-effective measures that can reduce unnecessary spending and enhance overall financial sustainability.

Third, understanding the value of one riyal supports cost-effectiveness analysis in healthcare. It helps determine the most efficient ways to allocate resources, focusing on initiatives that deliver significant health benefits at a lower cost. This analysis is essential for optimizing healthcare expenditures and ensuring that funds are directed toward interventions that provide the greatest value for money.

Finally, this understanding informs policy development aimed at achieving equitable access to healthcare services. By assessing the impact of each riyal spent, policymakers can design and implement policies that address gaps in healthcare coverage, reduce disparities in healthcare access, and ensure that underserved populations receive fair and equitable access to healthcare services.<sup>1</sup>

In conclusion, understanding the value of one riyal in Saudi Arabia's healthcare sector is a critical component of effective health economics. It enables better resource allocation, supports cost-effectiveness analysis, and informs policy development, all of which contribute to achieving sustainable and equitable healthcare for the population.



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# Healthcare landscape in Saudi Arabia: an analytical overview

## Introduction to financial sustainability in healthcare

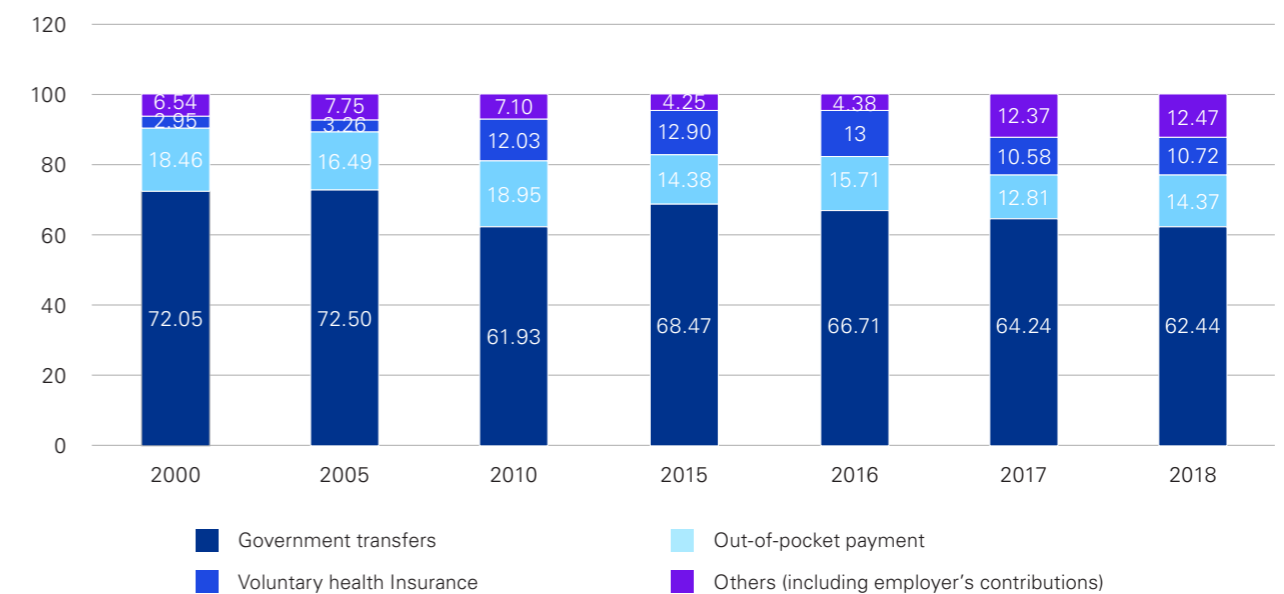
The financing of healthcare in Saudi Arabia is heavily dependent on oil revenues, a structure rooted in Article 31 of the nation's constitution, which mandates the provision of free healthcare services to all citizens. This constitutional obligation has led to substantial increases in health sector budget allocations, from SAR22.8 billion in 2007 to SAR79.8 billion in 2021, in response to the growing demand for healthcare services. While the primary source of funding remains oil revenues, there is an ongoing need to diversify and ensure the sustainability of healthcare financing, particularly given the constitutional guarantee of healthcare access for all citizens.

While government contributions traditionally constituted the majority of healthcare spending, their share has gradually decreased over time. In 2000, government transfers accounted for 72.0 percent of total healthcare spending, declining to 62.4 percent in 2018. Meanwhile, the proportion of contributions from health insurance has risen sharply, increasing from 9.5 percent in 2000 to 23.2% in 2018.

Historically, the majority of the government budget, around 90 percent, was derived from oil revenue, with minimal contributions from other sectors. However, with the implementation of radical reforms aimed at diversifying the economy, the non-oil sector has experienced significant expansion. In 2018, the introduction of a value-added tax (VAT) marked a significant step towards revenue diversification. VAT revenue has since become a substantial component of non-oil revenue, contributing approximately 44 percent in 2020, up from 14 percent in 2019.

These reforms reflect the Kingdom's commitment to reducing its reliance on oil revenue and strengthening other sectors of the economy. The increased contribution of non-oil revenue sources, particularly VAT, has implications for healthcare financing, as it reduces dependence on volatile oil revenues and enhances the sustainability of healthcare funding. Overall, these efforts aim to ensure the continued provision of quality healthcare services to the population of the Kingdom.

Table 1: Source of financing healthcare in Saudi Arabia (in percentages)



Source: Alharbi, Mohammad Faleh and Kesavan Sreekantan Nair, 'Healthcare Financing in Saudi Arabia: Recent Trend and Future Challenges,' in: Online Journal of Health and Allied Sciences (2022).

Saudi Arabia's healthcare system has seen remarkable advancements over recent decades, characterized by substantial government investment in medical infrastructure, technology, and workforce development. However, as the population grows and ages, the demand for healthcare services continues to rise, putting pressure on financial resources. The challenge lies in balancing these growing needs with available funding while maintaining high standards of care.<sup>2</sup>

The Saudi government is the primary financier of healthcare services in the country, providing substantial resources to ensure comprehensive healthcare coverage for its citizens. In 2024, the MOH allocated approximately SAR86 billion, representing about 7 percent of the national budget. Government healthcare spending accounted for approximately 70 percent of the total healthcare expenditure. This included funding for 250 public hospitals, many primary care centers, and various health initiatives under the MOH. A significant portion of this budget is directed towards specialized medical cities and advanced healthcare facilities, such as the King Faisal Specialist Hospital and Research Centre (KFSH&RC). These institutions focus on providing high-complexity and tertiary care services.

The government offers healthcare services free of charge to citizens and public sector workers through public healthcare facilities. Additionally, a mandatory health insurance scheme enables both citizens and non-citizens employed in the private sector to access healthcare services through private facilities. This scheme mandates private sector employers to provide standard health insurance for all employees, albeit with some services requiring out-of-pocket payments.<sup>3</sup>

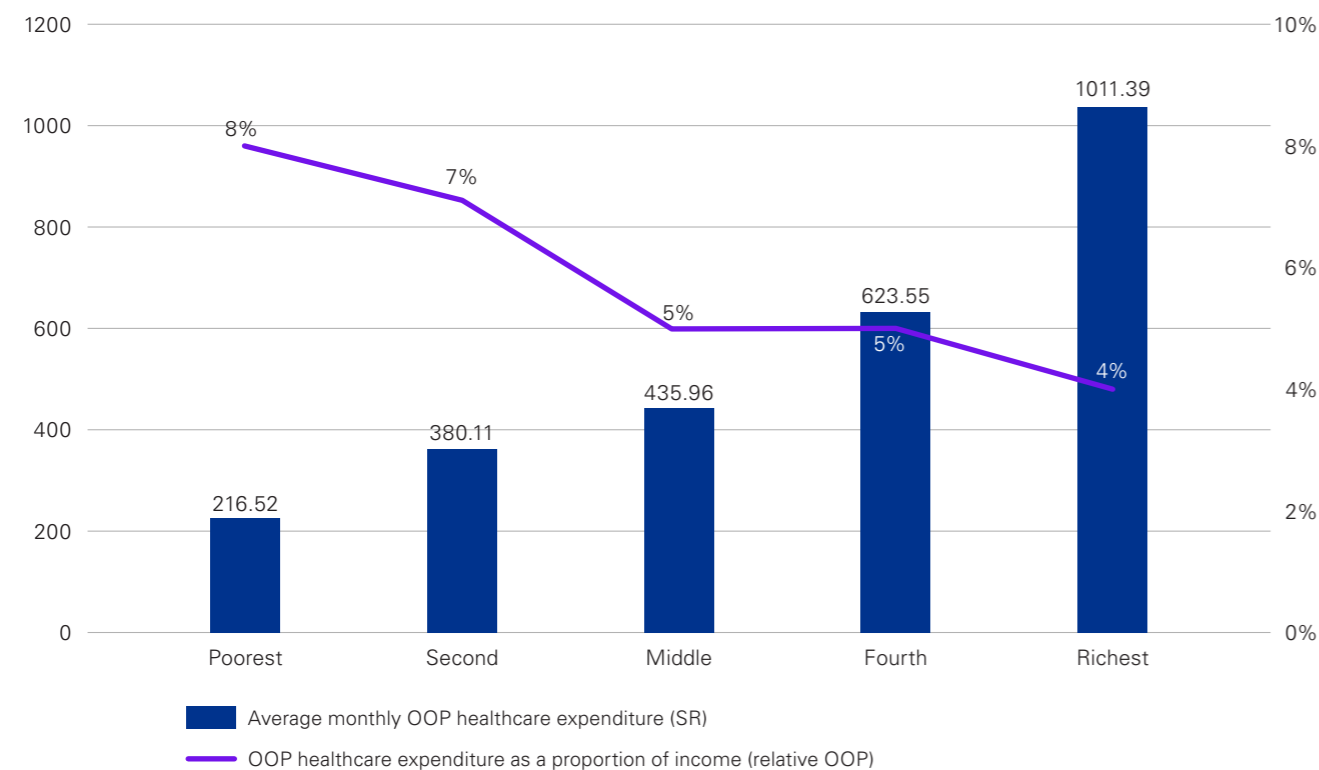
Despite these provisions, the public healthcare system in Saudi Arabia faces challenges characterized by overload, overuse, and a shortage of medical personnel, leading to prolonged waiting times at all levels of care. Consequently, many nationals turn to private healthcare services, with a significant portion of private care recipients being eligible for free public healthcare. However, some citizens opt for private insurance packages separate from the mandatory scheme or pay out-of-pocket for private healthcare services.

#### The current state of healthcare financing in Saudi Arabia

The landscape of healthcare financing in Saudi Arabia has undergone significant transformations in recent years, driven by initiatives aimed at achieving universal health coverage and enhancing the role of the private sector in healthcare provision.



Figure 1: Average OOP and Relative OOP in Saudi Arabia



Source: Al-Hanawi, Mohammed Khaled. 'Decomposition of inequalities in out-of-pocket health expenditure burden in Saudi Arabia,' in: *Social Science & Medicine*, Volume 286 (2021).

In 2020, the expatriate population in the Kingdom constituted approximately 38.7 percent of the total population, with a majority covered under the Compulsory Employment-Based Health Insurance (CEBHI). The introduction of CEBHI for private sector workers has had a profound impact on healthcare financing strategies in the country. This initiative, established in accordance with the Labour Law in 1999, allowed the private sector to enter the healthcare services market, thereby expanding healthcare coverage and options for the population.

Aligned with the Vision 2030 framework, which aims to institutionalize the Saudi healthcare system and provide universal health coverage, the MOH has implemented new initiatives through the National Transformation Program (NTP) 2020. These initiatives focus on strengthening the healthcare financing and delivery system to achieve the vision's objectives.

Vision 2030 emphasizes expanding the role of the private sector in healthcare through privatization, public-private partnerships (PPPs), and foreign direct investments. The vision aims to increase the private sector's contribution to the healthcare sector as we will see later in this document.

In recent years, there has been a notable increase in the popularity of the private healthcare sector in Saudi

Arabia, leading to a marginal rise in the share of private health expenditure to overall health spending. MOH data indicates a consistent increase in the share of in-patients and out-patients in the private sector. This trend can be attributed to factors such as an increasing number of insured workers from the private sector, a growing preference for voluntary health insurance among high-income groups, and the rising popularity of the private health sector.

Despite these reforms and the increasing role of the private sector, government revenue remains the primary source of healthcare financing in the Kingdom. However, ongoing efforts to enhance the efficiency and sustainability of healthcare financing, coupled with the expansion of private sector involvement, are expected to further strengthen the healthcare system and improve access to quality healthcare services for all residents of Saudi Arabia.

The country boasts a mix of public and private healthcare facilities, offering comprehensive medical services to its citizens. Investments in advanced medical technologies, infrastructure development, and a growing emphasis on preventive care are reshaping the landscape. As Saudi Arabia continues to modernize its healthcare system, understanding the economic value of each riyal spent becomes increasingly crucial for sustainable growth.<sup>4</sup>

Saudi Arabia has pursued extensive reforms in healthcare financing, driven by the necessity to adapt to evolving economic and demographic challenges.

Moreover, these reforms are expected to drive efficiency and innovation in healthcare delivery, enhancing the quality of services through competition and private sector expertise. By shifting some of the financial burdens from the state to private entities and individuals, the Saudi healthcare system is poised to adapt more dynamically to future challenges, ensuring that it remains robust and capable of meeting the nation's health needs.

Despite these efforts, challenges remain. Balancing cost efficiency with quality care is complex, particularly as the nation grapples with economic fluctuations and evolving health needs. The current state underscores an ongoing transition towards a more diversified and resilient financial framework for healthcare in Saudi Arabia.

### **Key challenges to financial sustainability in healthcare**

Despite significant investment and ongoing reforms, Saudi Arabia's healthcare system faces several challenges in achieving long-term financial sustainability. These challenges include escalating medical costs, an aging population, and a continued reliance on government funding.<sup>5</sup>

One of the primary challenges is the rising cost of healthcare services. Advances in medical technology, the introduction of new treatments, and increasing demand for specialized care contribute to the overall increase in healthcare expenses. This places a financial burden on both the government and individuals, highlighting the need for strategies to manage and contain costs effectively.<sup>6</sup>

Additionally, Saudi Arabia's rapidly growing and aging population further strains healthcare resources. As the population ages, the prevalence of chronic diseases and the demand for long-term care services are expected to rise. This demographic shift necessitates increased investment in healthcare infrastructure, workforce, and services to meet the evolving needs of the population.<sup>7</sup>

The dependency on government funding poses another significant challenge. Fluctuations in global oil prices directly impact the availability of funds for healthcare, making the system vulnerable to economic instability. Diversifying revenue streams and exploring alternative financing mechanisms are essential to mitigate this risk and ensure the sustainability of healthcare funding.<sup>8</sup>

Inefficiencies within the healthcare system also contribute to financial strain. Over-prescription of medications, unnecessary diagnostic tests, and inefficient resource utilization drive up costs without necessarily improving patient outcomes. Addressing these inefficiencies through streamlined processes, evidence-based practices, and enhanced care coordination is crucial for optimizing healthcare expenditures.<sup>9</sup>

Furthermore, the increasing reliance on expatriate workers in the healthcare sector, coupled with challenges in attracting and retaining skilled medical professionals, adds complexity to achieving financial sustainability. Competitive salaries, training opportunities, and favorable working conditions are necessary to attract and retain healthcare talent in the country.

Overall, Saudi Arabia's healthcare system must navigate these challenges to achieve financial sustainability. Effective cost management, investment in healthcare infrastructure, diversification of funding sources, and addressing systemic inefficiencies are key to ensuring the long-term viability of the healthcare sector and meeting the needs of the population.





# Financial ecosystem and expenditure pattern

## Out-of-pocket expenditure

Out-of-pocket health expenditure in Saudi Arabia constitutes a notable portion of total health spending, accounting for 14 percent. A substantial portion of these expenditures is directed towards medication purchases, comprising up to 53 percent of all out-of-pocket healthcare spending. Physician visits also contribute significantly, accounting for 14 percent of total out-of-pocket healthcare spending.<sup>10</sup>

The prevalence of out-of-pocket spending underscores the gaps in healthcare coverage and highlights the financial burden faced by individuals seeking medical care. Addressing these issues requires comprehensive strategies to enhance public healthcare capacity, reduce waiting times, and ensure equitable access to quality healthcare services across the population. Moreover, efforts

to mitigate OOP spending, particularly for essential services like medications and physician consultations, are imperative to improve healthcare affordability and financial sustainability in the Kingdom.

The data in Table 1 highlights the disparities in healthcare expenditure across income quintiles in the country, with lower-income individuals spending a larger proportion of their income on healthcare compared to higher-income individuals. Additionally, demographic factors, education levels, insurance coverage, and regional differences also influence healthcare expenditure patterns within the population. These findings underscore the importance of targeted interventions to address healthcare affordability and accessibility issues, particularly for vulnerable populations in lower-income quintiles.

Table 1: OOP expenditure analysis

	Poorest	Second	Middle	Fourth	Richest
<b>Average monthly OOP healthcare expenditure SAR</b>	217	380	436	624	1011
<b>OOP healthcare expenditure as a proportion of income (relative OOP)</b>	8%	7%	5%	5%	4%
<b>Gender</b>					
<b>Female</b>	38%	44%	48%	49%	51%
<b>Male</b>	62%	56%	52%	52%	49%
<b>Nationality</b>					
<b>Non-Saudi</b>	52%	32%	17%	13%	14%
<b>Saudi</b>	48%	69%	83%	87%	86%
<b>Chronic illness</b>					
<b>Not suffering from chronic illness</b>	67%	63%	67%	69%	63%
<b>Suffering from chronic illness</b>	33%	37%	33%	31%	37%

Source: Al-Hanawi, 2021

In addition, the data reveals several noteworthy trends in healthcare expenditure across different demographics and income levels. Interestingly, females consistently spend less out-of-pocket (OOP) on healthcare compared to males, regardless of income bracket. For example, in the poorest income group, females account for only 0.381 of OOP expenditure while males account for 0.619, a pattern that persists across all income levels. There is a significant disparity between non-Saudi and Saudi nationals; non-Saudis in lower income brackets spend a larger proportion of their income on healthcare (0.524 for the poorest) compared to Saudis (0.476 for the poorest). This trend reverses in higher income groups, with Saudis contributing more (0.873 for the fourth quintile). Furthermore, among Saudis, OOP expenditure increases markedly with income, jumping from 0.476 in the poorest quintile to 0.873 in the fourth quintile. Notably, chronic illness does not significantly impact OOP expenditure disparities, as those with chronic conditions show similar spending patterns to those without. These insights underscore the need for targeted policies addressing gender, nationality, and income-specific factors to reduce healthcare expenditure disparities.

Financial sustainability in healthcare is a critical objective for nations worldwide, ensuring that health systems can meet current demands without compromising future generations' ability to access care. In Saudi Arabia, this goal is particularly pressing due to the nation's ambitious Vision 2030 plan, which seeks to diversify its economy and enhance public service sectors, including healthcare.<sup>11</sup>

Achieving financial sustainability requires innovative strategies that optimize resource allocation and improve efficiency within the healthcare system. This involves leveraging new technologies such as telemedicine and electronic health records (EHRs) to streamline operations and reduce costs. Moreover, fostering PPPs can inject additional capital and expertise into the sector.<sup>12</sup>

In this context of evolving needs and constrained budgets, understanding what one riyal buys in Saudi Arabia's healthcare system becomes essential. It provides insight into cost-effectiveness measures and illustrates how resources are being utilized towards achieving sustainable health outcomes for all citizens and residents.<sup>13</sup>

#### **The role of the economy in determining the value of one riyal in healthcare**

The value of one riyal in Saudi Arabia's healthcare sector is closely tied to the overall state of the economy. Economic stability directly influences the purchasing power of the riyal, impacting the cost of goods and services within the healthcare system.

When the economy is strong, and inflation is low, the riyal retains its value, enabling healthcare providers to purchase supplies, medications, and services at stable prices. This stability facilitates effective budgeting and resource allocation, allowing healthcare institutions to optimize their expenditures and deliver quality care without significant financial strain.<sup>14</sup>

Conversely, economic downturns or periods of high inflation can erode the value of the riyal. This erosion increases the cost of medical supplies, equipment, and services, complicating resource allocation for both public and private healthcare providers. If the value of the riyal decreases, healthcare institutions may face challenges in maintaining service quality and meeting patient needs within existing budgets.<sup>15</sup>

In this context, understanding the value of one riyal becomes essential for adapting to economic fluctuations and ensuring the financial resilience of the healthcare sector. Policymakers and healthcare administrators must be attuned to economic trends and inflationary pressures to make informed decisions about resource allocation, cost management, and pricing strategies.

Moreover, economic conditions also affect government revenue streams, particularly in a country like Saudi Arabia, where oil revenues play a significant role in public funding. Fluctuations in global oil prices impact the availability of funds for healthcare, necessitating careful planning and diversification of revenue sources to ensure the sustainability of healthcare financing.

Overall, the value of one riyal in healthcare is inextricably linked to the broader economic environment. Economic stability enhances the purchasing power of the riyal, supporting effective healthcare spending, while economic challenges can strain resources and necessitate adaptive strategies to maintain financial sustainability in the healthcare sector.

#### **The role of government funding and private sector investment**

Government funding and private sector investment play a crucial role in the financial sustainability of Saudi Arabia's healthcare system. Both sectors contribute to ensuring that healthcare services are adequately funded, accessible, and of high quality. (4) Government funding remains the primary source of healthcare financing in the Kingdom. The government allocates a significant portion of the national budget to the healthcare sector, aiming to provide comprehensive and equitable healthcare services to the population. This funding supports the operation of public hospitals, primary care centers, and various health initiatives under the MOH. It also covers the cost of free healthcare services provided to citizens through public healthcare facilities.<sup>16</sup>



In recent years, the Saudi government has made substantial investments in healthcare infrastructure, medical technologies, and workforce development. These investments have enhanced the quality and accessibility of healthcare services, ensuring that citizens receive timely and appropriate care. Additionally, government funding supports public health programs, preventive care initiatives, and specialized medical facilities that cater to complex healthcare needs.

Private sector investment has become increasingly important in diversifying healthcare financing and expanding service options in the Kingdom. The Vision 2030 initiative emphasizes the role of the private sector in healthcare, encouraging privatization, PPPs, and foreign direct investments. To meet the continuously rising demand, the government cooperated with the private sector to help pay for services, along with moving to an insurance-based structure. The Saudi government plans to promote private sector participation to reach 65 percent by 2030 under Vision 2030, with many hospitals and healthcare clinics targeted for privatization. Saudi Arabia will continue to expand its investment in preventing and treating diabetes and lifestyle disorders.<sup>17</sup>

Private sector involvement brings several benefits to the healthcare system. It introduces competition, fosters innovation, and enhances efficiency in service delivery. Private healthcare providers offer a range of services, from primary care to specialized treatments, complementing public healthcare facilities and expanding access to quality care.

PPPs leverage the strengths of both sectors, combining public funding with private sector expertise and resources. These partnerships aim to enable the development of new healthcare facilities, advanced medical technologies, and integrated healthcare networks that enhance service delivery and patient outcomes. PPPs also facilitate the sharing of financial risks and responsibilities between the public and private sectors, contributing to the overall financial sustainability of the healthcare system.<sup>18</sup>

Moreover, private sector investment supports the development of a robust health insurance market, providing individuals with additional coverage options and reducing the financial burden on the public healthcare system. Health insurance schemes, whether mandatory or voluntary, enable citizens to access private healthcare services, reducing reliance on public facilities and enhancing overall healthcare affordability.<sup>19</sup>

In conclusion, government funding and private sector investment are integral to the financial sustainability of Saudi Arabia's healthcare system. Together, they ensure the provision of comprehensive and high-quality healthcare services, support infrastructure development, and enhance the efficiency and accessibility of care. By fostering a balanced synergy between public and private sector contributions, the Kingdom aims to achieve a resilient and sustainable healthcare system for its population.





# Ensuring sustainability

## Innovative financial models for sustainable healthcare

Innovative financing models are crucial for achieving sustainable healthcare in Saudi Arabia, ensuring optimal resource utilization while maintaining high-quality services. One promising approach is value-based healthcare (VBHC), which shifts the focus from volume to value. This model emphasizes patient outcomes and cost-efficiency, encouraging providers to deliver better care at lower costs. By linking reimbursement to health outcomes rather than services rendered, it aligns incentives for all stakeholders towards achieving sustainable results. This approach not only enhances patient satisfaction but also reduces unnecessary healthcare expenditures, ultimately contributing to a more sustainable healthcare system. VBHC requires robust data collection and analysis to monitor patient outcomes and adjust practices accordingly.<sup>20</sup>

Additionally, it necessitates a cultural shift among healthcare providers, who must prioritize long-term health outcomes over short-term gains. VBHC offers numerous benefits, including reduced costs and improved health outcomes for patients, particularly those managing chronic conditions like diabetes or obesity. By emphasizing prevention and efficient treatment, patients experience fewer medical visits and lower expenses on medications. Providers, in turn, achieve greater efficiency and patient satisfaction, as the focus shifts from volume to quality care, without the financial risks associated with capitated payment systems. Payers benefit from controlling costs and minimizing risk by spreading it across a healthier population, while suppliers can align their pricing with positive patient outcomes, which becomes increasingly important as healthcare costs rise.

Overall, this model fosters a healthier society and significantly reduces national healthcare spending, contributing to more sustainable economic growth. It represents a shift from traditional models by linking compensation to patient outcomes rather than the volume of services provided. This approach fundamentally changes the way healthcare is delivered, encouraging providers to focus on delivering the right care rather than more care. By prioritizing targeted interventions and reducing

unnecessary procedures, VBHC helps streamline patient care, ultimately leading to shorter waiting times and better allocation of resources. This model encourages a mindset that prioritizes long-term health benefits over immediate, high-volume treatments. As a result, clinicians can focus on improving care standards, dedicating more time to patient-centered practices. Implementing VBHC requires not just robust data collection and analysis to monitor outcomes but also a cultural shift within the healthcare sector, where the emphasis is placed on quality rather than quantity.

PPPs also hold significant potential in enhancing financial sustainability. These collaborations can leverage private sector efficiency and innovation while benefiting from public funding and oversight. PPPs can be instrumental in infrastructure development, technology integration, and specialized service provision. For instance, private entities can bring in cutting-edge technology and management expertise, while the public sector ensures that services remain accessible and affordable. Successful PPPs require clear regulatory frameworks and transparent contractual agreements to protect public interests and ensure accountability. Furthermore, PPPs can stimulate economic growth by creating jobs and fostering innovation in the healthcare sector. By strategically engaging the private sector, Saudi Arabia can address its healthcare challenges more effectively and efficiently.<sup>21</sup>

Another innovative model is health savings accounts (HSAs), which empower individuals to save for medical expenses on a tax-advantaged basis. HSAs promote personal responsibility and prudent use of healthcare services by giving consumers a direct stake in their healthcare expenditure decisions. This model encourages individuals to make informed choices about their healthcare, potentially reducing unnecessary medical visits and procedures. HSAs also provide a financial cushion for unexpected medical expenses, increasing financial security for individuals. To maximize the benefits of HSAs, the government could provide incentives such as matching contributions or offering tax breaks. Additionally, public awareness campaigns are essential to educate citizens on the advantages of HSAs and how to use them effectively.<sup>22</sup>

## Financing models: challenges and considerations

Despite the promise of these models, there are significant challenges and considerations for their implementation in Saudi Arabia. Future payment reforms are likely to encounter political, financial, and technical obstacles. Major changes in the structure of the Saudi healthcare system are unlikely unless a major governmental body, such as the MOH, with considerable market influence, is involved. While some institutions, like KFSH&RC, are well-organized, many public healthcare organizations lack sufficient coordination. This fragmentation complicates the transition from a salary or wage model to alternative payment systems or even modifications within the existing salary payment model. Furthermore, there may be resistance from healthcare providers who are accustomed to the current system and hesitant to adopt new practices.<sup>23</sup>

To overcome these challenges, and to mitigate against the transitional costs associated with transforming the payment system, a phased implementation of payment reforms is recommended. This approach allows for gradual adaptation and minimizes disruption. Furthermore, public healthcare institutions should be incentivized to expedite their transformation into more

organized and coordinated entities. Saudi Arabia has taken several steps in this direction through issuing royal decrees such as those for establishing the Public Health Authority and the Center for National Health Insurance. Advances in information technology can be leveraged to create cohesive and coordinated healthcare delivery systems. The development of such organized networks among healthcare providers will reduce future costs associated with reforms in public healthcare payment policies. Moreover, digital health solutions such as telemedicine and electronic health records can streamline operations and reduce costs through improved data management and accessibility. Such emerging technologies can also enhance patient engagement and compliance, leading to better health outcomes. Additionally, robust training programs and continuous professional development can help healthcare providers adapt to new models and improve their service delivery.<sup>24</sup>

As Saudi Arabia continues to modernize its healthcare system, these innovative financing models will play a crucial role in ensuring long-term sustainability and resilience. By adopting models, Saudi Arabia can pave the way towards a more financially mature healthcare system that meets the needs of its population effectively.



# Cost-benefit analysis: What one riyal buys in healthcare

**Understanding the cost-effectiveness of healthcare expenditures in Saudi Arabia is crucial for achieving financial sustainability. By analyzing what one riyal can achieve within the healthcare sector, policymakers and administrators can make informed decisions about resource allocation and budgeting, ensuring the optimal use of limited resources.**

One significant issue facing Saudi Arabia's healthcare system is the rising cost of medical services. Insurance companies, aiming to minimize their expenses, have increased health insurance premiums, adversely impacting public health.<sup>25</sup> The implementation of a 5 percent VAT in 2018, which increased to 15 percent in May 2020, has further exacerbated the cost of private healthcare. This tax hike has made medical services more expensive, particularly affecting high-risk expatriate workers.<sup>26</sup> The current system lacks effective measures to compel insurance companies to cover high-risk employees in the private sector. Health insurers typically employ risk-rated premiums, basing premiums on health risks and company size. Consequently, companies with fewer employees face higher premiums, which has a detrimental effect on the success of the CEBHI scheme. Currently, the CEBHI scheme successfully provides healthcare to 10 million workers and their dependents in the private sector (6.6 million expatriate workers and 3.4 million Saudi nationals), with contributions paid by employers. However, maintaining equity and access under this system is problematic due to varying premiums based on salary groups. Higher paid workers have better access to high-quality care, while lower paid workers face limited healthcare access.<sup>27</sup>

## Preventive care and long-term savings

In the context of Saudi healthcare, investing a single riyal in preventive care can yield substantial long-term benefits. Preventive measures such as vaccinations, health screenings, and public health education can significantly reduce the incidence of preventable diseases. This approach not only improves public health outcomes but also minimizes the need for costly treatments and hospitalizations. For example, every riyal spent on vaccination programs can prevent outbreaks of infectious diseases, thereby saving millions in potential healthcare costs and economic losses. This aligns with VBHC models, which prioritize patient outcomes and cost-efficiency, ensuring that investments in preventive care deliver high returns in terms of both health and financial savings.<sup>28</sup>

## Technological integration and efficiency

Spending one riyal on advanced diagnostic tools and telemedicine services can dramatically enhance patient outcomes and streamline healthcare delivery. Investments in medical technology enable early detection and management of health conditions, reducing the need for more expensive interventions later on. For instance, telemedicine services facilitate remote consultations and follow-ups, increasing access to care and reducing the burden on physical healthcare facilities. This not only improves patient satisfaction and outcomes but also aligns with innovative financial models by promoting cost-effective and efficient healthcare delivery. By integrating digital health solutions, Saudi Arabia can ensure that every riyal spent contributes to a more accessible and efficient healthcare system.<sup>29</sup>

## Efficient procurement practices

Efficient procurement practices can maximize the value of each riyal spent in the healthcare sector. By negotiating bulk purchasing agreements for pharmaceuticals and medical supplies, healthcare institutions can reduce costs and ensure a steady supply of essential medications and equipment. Leveraging economies of scale through PPPs can further enhance procurement efficiency. These collaborations allow healthcare providers to benefit from private sector innovation and efficiency while maintaining public oversight and funding. Such strategic procurement practices are essential for maintaining financial sustainability and ensuring that healthcare resources are allocated effectively to meet the needs of the population. By prioritizing cost-effective purchasing and fostering strong partnerships, healthcare institutions can stretch their budgets further, ensuring that high-quality care is accessible to more people. This approach not only helps to manage rising healthcare costs but also contributes to the overall resilience and responsiveness of the healthcare system, enabling it to adapt to changing demands and improve patient outcomes over time.<sup>30</sup>

## Case study: Innovative health insurance model for financially sustainable healthcare in Saudi Arabia

The healthcare system in Saudi Arabia is under increasing pressure due to the growing prevalence of non-communicable diseases (NCDs) and escalating healthcare costs. With the majority of funding currently reliant on government revenues from oil exports, this model's sustainability is precarious. As oil prices fluctuate, the volatility undermines the financial stability required for a robust healthcare system. This scenario underscores the urgent need for an innovative and sustainable health insurance funding model that can address both the financial and healthcare delivery challenges inherent in managing NCDs.

The proposed health insurance model outlined by Hazazi, Wilson, and Larkin in their 2022 paper suggests a shift towards more diversified funding structure. The model advocates for increasing personal health insurance coverage to mitigate the financial burden on the government while ensuring the continuity and equity of care. A notable feature of this model is its emphasis on chronic disease prevention and primary healthcare, which are pivotal for managing NCDs effectively. By fostering collaboration across different levels of care—primary, secondary, and tertiary—the model aims to integrate and streamline healthcare delivery, which can lead

to improved patient outcomes and cost savings. The study utilized a mixed-methods approach, including interviews with 25 healthcare providers and managers, and surveys of 315 NCD patients, revealing that a significant 80 percent of patients perceived the current care as inadequate for managing their conditions effectively.

The proposed model offers a framework for financial sustainability by diversifying funding sources and prioritizing cost-effective care strategies. By increasing personal health insurance coverage, the model reduces the dependence on government funding, making the system less vulnerable to oil revenue fluctuations. Moreover, the emphasis on preventive care and primary healthcare aims to lower long-term healthcare costs by reducing the necessity for expensive treatments and hospitalizations. This approach not only ensures equitable access to healthcare services but also aligns funding with efficient care practices, potentially leading to better health outcomes and reduced financial strain on public resources. The table below illustrates the critical components and expected outcomes of the proposed model compared to the current system.<sup>31</sup>

### Comparison of current healthcare funding model vs. proposed health insurance model

Current system	VS	Proposed health insurance model
Primary funding source	<b>Government revenue from oil exports</b>	Increased personal health insurance coverage
Focus of care	<b>General services</b>	Chronic disease prevention and primary care
Patient access	<b>Limited by socio-economic status</b>	Equitable and continuous care
Provider collaboration	<b>Fragmented across care levels</b>	Integrated across primary, secondary, tertiary
Financial sustainability	<b>Highly dependent on volatile oil prices</b>	Diversified and less vulnerable
Patient perception of care	<b>Inadequate for effective NCD management</b>	Expected improvement in care satisfaction
Prevention and cost-effectiveness	<b>Limited focus</b>	Emphasis on prevention and cost-effective care

# Conclusion and implications for policymakers

The value of one riyal in Saudi Arabia's healthcare sector extends beyond mere financial considerations; it encompasses the efficiency and effectiveness of resource allocation in delivering quality healthcare services. Policymakers play a critical role in optimizing healthcare spending, ensuring that each riyal is used to its fullest potential to achieve better health outcomes for the population.

One of the key implications for policymakers is the need to prioritize cost-effective interventions and initiatives. By investing in preventive care, leveraging advanced medical technologies, and enhancing healthcare infrastructure, policymakers can maximize the impact of healthcare spending and improve overall public health.

Additionally, understanding the value of one riyal supports evidence-based decision-making in healthcare policy development. Policymakers can use cost-benefit analyses to evaluate the effectiveness of different healthcare programs and initiatives, ensuring that resources are allocated to areas that provide the greatest value for money.

Efforts to diversify healthcare financing through private sector investment and public-private partnerships are also essential for achieving financial sustainability. Policymakers should continue to encourage private sector involvement, foster innovation, and explore alternative funding mechanisms to complement government funding.

Furthermore, addressing systemic inefficiencies and optimizing resource utilization are critical for reducing healthcare costs and improving service delivery. Policymakers should focus on streamlining processes, implementing evidence-based practices, and enhancing care coordination to achieve better outcomes at a lower cost.

In conclusion, understanding the value of one riyal in Saudi Arabia's healthcare sector is vital for achieving financial sustainability and delivering high-quality healthcare services to the population. By prioritizing cost-effective interventions, promoting private sector investment, and addressing inefficiencies, policymakers can ensure that healthcare resources are used efficiently and effectively to meet the evolving needs of the Kingdom.



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