opción

Revista de Antropología, Ciencias de la Comunicación y de la Información, Filosofía, Lingüística y Semiótica, Problemas del Desarrollo, la Ciencia y la Tecnología

Año 35, 2019, Especial N° 21

Revista de Ciencias Humanas y Sociales
ISSN 1012-1587/ ISSNe: 2477-9385
Depósito Legal pp 198402ZU45

Universidad del Zulia
Facultad Experimental de Ciencias
Departamento de Ciencias Humanas
Maracaibo - Venezuela

Opción, Año 35, Especial No.21 (2019): 881-895
ISSN 1012-1587/ISSNe: 2477-9385

A value chain analysis of health insurance industry, government and healthcare providers in Indonesia

Noorlailie Soewarno[1]
[1]Faculty of Economics and Business, Universitas Airlangga, Indonesia
NoorlailieSoewarno@feb.unair.ac.id

Bambang Tjahjadi[2]*
[2]Faculty of Economics and Business, Universitas Airlangga, Indonesia
bambang.tjahjadi@feb.unair.ac.id

Isnalita[3]
[3]Faculty of Economics and Business, Universitas Airlangga, Indonesia
Isnalita@feb.unair.ac.id

Abstract

This study explores the value chain of the health insurance industry, government institutions, and healthcare providers in Indonesia. It is designed as qualitative research using exploratory case study approach. Primary data are obtained through in-depth interviews with informants consisting of health insurance managers, government officers, and hospital managers. Secondary data are collected through public reports. Some parties contribute to the high cost of healthcare in Indonesia along the value chain of the health insurance industry, government institutions, and healthcare providers. The structural cost drivers include bureaucracy, lack of synergy, fraud, hospital claims, medicine price, participants' behavior, and insurance companies' behaviors.

Keywords: healthcare, costs, providers, insurance, government.

Recibido: 10-03-2019 •Aceptado: 15-04-2019

Un análisis de la cadena de valor de la industria de seguros de salud, el gobierno y los proveedores de atención médica en Indonesia

Resumen

Este estudio explora la cadena de valor de la industria de seguros de salud, instituciones gubernamentales y proveedores de atención médica en Indonesia. Está diseñado como investigación cualitativa utilizando un enfoque de estudio de caso exploratorio. Los datos primarios se obtienen a través de entrevistas en profundidad con informantes que consisten en gerentes de seguros de salud, funcionarios gubernamentales y gerentes de hospitales. Los datos secundarios se recogen a través de informes públicos. Algunas partes contribuyen al alto costo de la atención médica en Indonesia a lo largo de la cadena de valor de la industria de seguros de salud, instituciones gubernamentales y proveedores de atención médica. Los factores de costos estructurales incluyen la burocracia, la falta de sinergia, el fraude, las reclamaciones hospitalarias, el precio de los medicamentos, el comportamiento de los participantes y el comportamiento de las compañías de seguros.

Palabras clave: salud, costos, proveedores, seguros, gobierno.

1. INTRODUCTION

It is undeniable that healthcare is very important in human life. Without health, human life cannot optimally functions. In order to keep being healthy, everyone needs a health care system. Health care system requires costs therefore, healthcare has become a world problem. The average health care costs in ASEAN countries are still relatively low, which is below the 4.16% of GDP when compared to the standard of the OECD health care costs of 12.3% (Solidiance,

2017).

In Indonesia, health care problems are the most important issue after education. Unfortunately, the health care cost in Indonesia is still the smallest compared to other ASEAN countries. In 2017 the Indonesia's health care costs ranged from 2.8% of GDP, relatively small compared to Malaysia (4.2%), Thailand (4.1%), Philippines (4.7%), and Singapore (4.9%).

This study focuses on exploring the healthcare cost drivers along the value chain of the healthcare insurance industry, the government, and the healthcare providers, the importance of this study is to map and to provide information of the potential source of healthcare cost inefficiencies. Specifically, it maps the value chain of the rent seekers and regulators. Then, it is expected to identify strategic cost drivers causing the healthcare costs inefficiencies in Indonesia. Furthermore, it provides useful information enabling decision makers to focus on cost management activities for public benefits.

To address the issues, this research employs the following three research questions:

RQ 1: What is the value chain of healthcare providers, health insurance industry and government?

RQ 2: What are strategic cost drivers in the value chain among players in the healthcare industry, especially the healthcare

insurance industry, the government, and the healthcare providers?

RQ3: What is the root cause of healthcare costs along the value chain of the healthcare insurance industry, the government, and the healthcare providers?

2. LITERATURE REVIEW

The agency theory proposed by Jensen and Meckling (Bendickson et al., 2016) refers to the relationship between agent and principal. An agent is a party who does not have resources, but he/she has the skills in managing those resources. A principal is the party who has resources but he/she submits those resources management to the agent. The relationship between agent and principal is called the agency relationship.

The relationship between agent and principal does not always go well. In many cases, there are many problems or conflicts between the two parties. The conflicts are mostly due to differences in objectives. What the agent wants is incompatible with what the principal wants. Conflict is also driven by different views of risk so that actions of each party are also different. The cost of this conflict is called the agency cost which includes all monitoring costs, bonding costs, and residual loss (Fama and Jensen, 1983). The agency theory is

the foundation of the need for a good corporate governance in modern organizations (Yolles, 2019)

In the health care industry, there are a variety of relationship patterns that can be viewed from the perspective of the agency theory. In macro terms, the relationship between community as owner of resources (principal) and managers of health care resources (agent) is clearly an agency relationship. Distorted behavior by agents in the health care industry clearly creates a loss (agency costs) on society as a principal. Therefore, a good governance is needed in health care management.

The industry/organization (I/O) model of above-average return states that industry has an important contribution to performance. According to Porter (Zhao et al.,2016), industry profitability is governed by five forces, namely: (1) bargaining power of suppliers, (2) bargaining power of buyers, (3) new entrants, (4) substitutes, (5) rivalry among competitors. Suppliers have strong bargaining position if they are only few in number so that they can set input price and reduce profitability of industry, and vice versa. Buyers have a strong bargaining position if they are only few in number so that they can set the price of industry outputs and reduce profitability of industry, and vice versa.

More substitutes will lower industry profitability, and vice versa. The more threats new entrants entering the industry, the more intense the competition is, then it ultimately lower profitability of

industry, and vice versa. Finally, increasing competitive intensity among competitors in industry will also lower the profitability of industry, and vice versa. The Porter's Five Forces framework is used to analyze the attractiveness of an industry. It is important for each organization to see their respective positions in the industry chosen to compete (Xie et al., 2018). These external factors provide a wider perspective for management to develop their own business strategy. The business strategy is named by Porter (1985) as a generic strategy consisting of: (1) cost leadership, (2) differentiation, and (3) focus.

3. RESULTS AND DISCUSSIONS

RQ 1: What is the value chain of the health insurance industry, the government, and the healthcare providers?

Figure 1 illustrates the value chain of the health insurance industry, the government, and the health care providers in Indonesia. It can be seen that many parties involve in the health care management. It raises the issues of long bureaucracy and high costs. The President of Indonesia gives the authority to the Social Security Organizing Agency (Badan Penyelenggara Jaminan Sosial) or BPJS because they have knowledge, experience, and information which is used by the Ministry of Health as the regulator to formulate policies. The budget and the implementation of the program are controlled by the People's Representative Council or Dewan Perwakilan Rakyat (DPR). The success of the program needs close cooperation with healthcare

providers, doctors, regional governments, and private insurance companies.

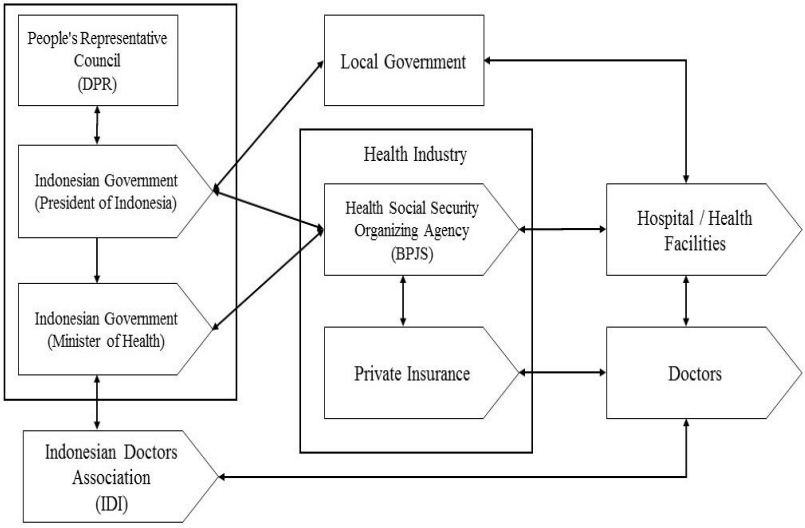

Figure 1: Value Chain of Healthcare Insurance Industry, Government, and Healthcare Providers
Source: Processed data by researchers

RQ 2: What are strategic cost drivers in the value chain among players in the health care industry, especially the health care insurance industry, the government, and the health care providers?

Each value chain has a strategic cost driver, both structural and executional. The following section will discuss each role of each player and the contribution to the strategic costs along the value chain.

3.1. Health insurance industry and Government

Basically, an insurance company collects public funds from premium participants or policyholders. Funds accumulated from the society are placed in fund management institutions which will certainly stimulate other business institutions to carry out their activities. Funds collected from these premium payments, in the long run, will form savings reserves that are very beneficial for supporting business activities and society welfare.

Insurance industry contribute to greater economic prosperity. These indicators can be seen through the number of policyholders and the amount of funds collected from the public through insurance premium payments. In developed countries, the insurance companies are the owner of banking companies and aviation service companies. Thus, the progress of the insurance service will encourage the creation of other industries (Chang, 2018).

The BPJS is an institution established to organize social security programs in Indonesia. The BPJS is a non-profit legal entity and replaces a number of social security institutions in Indonesia, namely the Indonesia Health Insurance Company (PT Askes Indonesia) to become the BPJS Kesehatan and the Employment Social Security Company (PT Jamsostek) to become the BPJS Ketenagakerjaan. Both institutions are directly responsible to the President. The BPJS is headquartered in Jakarta, and it can have a representative office at the provincial level and branch offices at the city district level).

Suryono (2008) states that health insurance is an insurance about life. The purpose of health insurance is to reduce the risk of illness costs from the insured to the insurer. Therefore, the responsibility of the guarantor is to provide costs or healthcare services to the insured if sick. Whereas, according to Sulastomo (2000), the health insurance system aims to protect the public from (economy) difficulties in financing health services. The government program for achieving the universal health coverage in Indonesia is definitely a threat to private insurance (Sari, 2017). The critical role of the government health insurance program is revealed by the following statement:

3.2. People's Representative Council/DPR, government, and BPJS Kesehatan

The implementation of the Program has entered its 5th year in 2018 and on 31 December 2017 the number of participants has reached 187,982,949, meaning that the number of people who have participated in the Program has reached 72.9% of the total population of Indonesia. It is hoped that it is aligned with the direction of national policies and strategies in the National Medium-Term Development Plan in 2019, the membership coverage will cover a minimum of 95% in 2019. However, the BPJS Kesehatan current problems are not only from the aspect of membership coverage, but also from operational costs as well as hospital services.

The sustainability of this Program is a big challenge. Since the establishment, the BPJS has faced a big financial problem. This agency has always experienced a deficit since 2014 (Utama, 2017). In 2017, the deficit has reached 9.75 trillion rupiahs (Aldin, 2018a). The causes of this high deficit includes the potential fraud by medical providers (Utama 2017), lack of discipline of participants in paying monthly contributions, low number of participants (Aldin, 2018b), cost of treatment for participants with catastrophic diseases (Daulay, 2017). In overcoming this problem, the BPJS launched several options, namely the injection of additional funds through the State Revenue and Expenditure Budget (APBN), utilization of cigarette taxes, regional income and expenditure budgets (APBD) specifically for JKN (Deny, 2017), and cost sharing for participants that is capable or independent.

[…] Yes, indeed commission IX does control and supervise. Their job is to socialize and strengthen this program. It may take a longer time, but it depends on the problem […] (Government officer 1)

3.3. Ministry of Health and BPJS Kesehatan

As a professional institution in the field of social security, the BPJS has knowledge, experience, data, and information that are very much needed in the formulation of policies and regulations in the field of social security, even in other related fields such as employment, health services, and work accident prevention. In contrast, the BPJS requires the support of policies and regulations formulated or formed

by the relevant Ministries to maintain the security and sustainability of the implementation of social security programs. Therefore, a functional relationship is created between the BPJS and various related Ministries, including those in charge of managing social security, employment, health, social affairs and others.

The BPJS Kesehatan together with the Ministry of Health build a national health system, integration of individual health services with public health services, quality development of health services, development of health human resources, provision and distribution of health facilities and health supplies, control of health care prices, drug prices and medical equipment prices, disaster management, prevention of infectious diseases, etc.

3.4. Local government and BPJS Kesehatan

The development of national social security system is one of the functions decentralized by the central government to the regional governments. The relationship between the BPJS and the Regional Government has been established, among others, in the implementation of policies for the implementation of social security programs in the era of decentralization and regional autonomy, integration of data on regional civil servants with data on Social Security Participation, and implementation of regional health systems.

In the Presidential Instruction, governors, regents and mayors are instructed to allocate budget for implementing the program, to register all residents as participants, to provide facilities and infrastructures as well as health human resources in the region, to ensure that regional-owned companies register administrators, workers, and their family members in the program as well as paying their contributions. In addition, the governor was instructed to provide administrative sanctions in the form of not obtaining certain public services to employers who do not comply with registration and payment of contributions (Rezaei & Nemati, 2017).

The program also involves the regional government to work together to achieve the Universal Health Coverage of around 90%, even though it is not yet optimal, but it is expected that in 2019 the target will be achieved and the synergy will work together. This is expressed by an informant as follows:

4. CONCLUSION

This study explores the value chain of health insurance industry, government institutions, and healthcare providers in Indonesia using an exploratory case study approach. It focuses on the value chain of healthcare organizations in Indonesia as the unit of analysis. Data are obtained through in-depth interviews with informants consisting of health insurance managers, government officers, and hospital managers as well as public reports from the internet.

The study concludes the following results. Firstly, many parties contribute to the high cost of healthcare in Indonesia along the value chain of health insurance industry, government institutions, and healthcare providers. Secondly, the structural cost drivers include bureaucracy, lack of synergy, fraud, hospital claims, medicine price, participants' behaviour, and insurance companies' behaviour.

As a case study, this research has a limitation that it cannot be generalized to other countries. Therefore, future study needs to compare of the implementation of national health program in other countries to enrich the findings.

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Revista de Ciencias Humanas y Sociales
Año 35, Especial N° 21, (2019)

Esta revista fue editada en formato digital por el personal de la Oficina de Publicaciones Científicas de la Facultad Experimental de Ciencias, Universidad del Zulia.
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