


IFC Advisory Service in the Middle East and North Africa

# Health and Social Work- Private Sector Hospitals



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## **Acknowledgements**

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The project was conceived and implemented by IFC's Bank Advisory Services team, in partnership with State Bank of Pakistan (SBP) and in consultation with several major banks in Pakistan. Bank Advisory Services program, builds the capacities of commercial banks to provide banking services to small and medium enterprises (SMEs) in a responsible, profitable and sustainable manner. Particularly, IFC works to increase the volume of SME lending, the number of banks with SME banking operations, and the number of businesses that have access to banking services.

SBP's SME Finance Department provided critical facilitation and oversight for this initiative. State Bank of Pakistan is the Central Bank of the country. Like a Central Bank in any developing country, State Bank of Pakistan performs both the traditional and developmental functions to achieve macro-economic goals. This role covers not only the development of important components of monetary and capital markets but also to assist the process of economic growth and promote the fuller utilization of a country's resources.



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## 1. Guidelines

This segment booklet provides indicative business and financial characteristics based on the information evidenced from a sample of business owners via primary research survey. It can be used by banks as a starting point for development of program based lending products for tapping the underutilized potential for providing financing products to small business owners.

The Health and Social Work - Private Sector Hospitals Industry overview is developed using information obtained from secondary and tertiary sources including, industry associations and data available in public domain.

### **Market Assessment**

The section contains analysis based on primary findings of survey exercise conducted in major cities of Pakistan; the information can form the basis of identifying the characteristics of a typical business entity in the segment.

### **Product Suite**

Proposed banking product suite provides a number of potential core banking products templates that can be used by banks to design appropriate banking products for gaining access to the particular segment. However, it is highly recommended that product development undergoes the usual general practice and protocols employed by the bank. It is highly recommended that the product development and the business line team work together to conduct a quick market research of a small sample in order to validate the results of this study. The methodology, questionnaire, sampling plans and results tables from this study are available with IFC for further reference.

### **Marketing and Distribution**

Market and Distribution considerations are indicative and have been based on the assumption that banks will employ their individual marketing and distribution strategy for product development. However, information presented can be utilized by banks for developing certain hypothesis to be validated for developing their marketing and delivery strategies.

## 2. Introduction & Objectives

Small and Medium Enterprises (SMEs) account for approximately 70% of businesses in Pakistan and play a major role in spurring economic activity with a contribution amounting to 78% of non-agriculture GDP of Pakistan, as per State Bank of Pakistan. However, the segment remains largely unbanked owing to the following impediments:

- A different risk profile
- Lack of substantial collateral
- Conservative approach adopted by financial institutions
- Lack of awareness and willingness to bank

The SME sector presents immense business opportunities for financial institutions from the perspective of increasing book size while generating strong risk adjusted returns, however there is an imminent need to understand the dynamics of this segment in order to enable financial institutions to structure products that meet overall risk management guidelines and facilitate the growth of the SME sector.

In this context, International Finance Corporation (IFC) in partnership with State Bank of Pakistan (SBP), and in consultation with several major banks have conducted a secondary research and a primary survey of the SME businesses within the top ten SME sectors / subsectors of Pakistan to determine banking and financial needs of the sector.

This booklet contains the findings pertaining to the services segment of *“Health and Social Work – Private Sector Hospitals”*.

At present, the private sector hospitals in Pakistan are relatively organized with sales being generated through predominantly individual customers that are patients. A number of private sector Hospitals are on the panel of corporate as well as health insurance companies and therefore also have a proportion of sales from corporate accounts.

This segment is largely dispersed in the urban areas and underserved by financial institutions; however, demand for this segment continues to increase



substantially with an overall increasing population and greater awareness of health issues.

### Limitation of the Research

- The Sample may not be geographically exhaustive.
- The sampling plan may not suit the requirements of every bank.
- Some of the recommendations are not backed by qualitative primary research but are based on knowledge of the market and best practices.

## Sampling Plan

In total, interviews with 34 SME owners were conducted for *Health and Social Work - Private Sector Hospitals* segment. The locations and classification of these SME's are covered in Section 5.1 of this booklet under 'Segment Demographic'. Number of employees under this segment is covered in

section 5.2 'Owners Profile'.

The primary research exercise conducted for identifying the financial needs of the SME sub segment was based on the following sampling methodology.

Particular	Crietaria	Rationale
Size	<ul style="list-style-type: none"> <li>250 detailed one on one interviews for 10 segments</li> <li>25 SMEs surveyed within each segment.</li> </ul>	<ul style="list-style-type: none"> <li>Sample size is sufficient enough to gather relevant qualitative and quantitative information on each segment</li> <li>Increase in the sample size will only add marginal value to the overall information collected from the survey exercise</li> <li>Change of Definition of SME by SBP</li> <li>SBP is planning to revise their classification criteria for Small enterprises as compared with Medium enterprises within the new draft prudential regulations being proposed for regulating banking services to the SME segment</li> <li>Small enterprises would be defined as those businesses that have employees up to 20 and annual turnover up to PKR 75 MN</li> <li>Medium enterprises would be businesses with more than 20 employees and turnover in excess of PKR 75 MN for the purpose of classification and segmentation by banks</li> <li>For the purpose of this research the small portion of medium entities that we have reviewed include entities that have revenue up to PKR 150MN which would be approximately double in size with the small entities as per new definition</li> </ul>
Particular	Crietaria	Rationale
Status	<ul style="list-style-type: none"> <li>At least 60% will be informal businesses</li> <li>At least 20% will be formal businesses</li> </ul>	<ul style="list-style-type: none"> <li>Informal businesses would be entities that do not have formal accounting and book keeping system. They do not get their accounts properly audited and are normally not registered under an official trade/regulatory body</li> <li>A wide majority of businesses operating in Pakistan are informal businesses in terms of their quality of record keeping and accounting information in the absence of which banks do not offer them any credit based products</li> <li>A study of informal businesses enables us to gauge the reasons of these proprietors to remain within the informal segment and still compete in the market with formal businesses enterprises within the same industry sector</li> <li>Moreover Small businesses have been assumed to have a maximum financing need of up to PKR 15 MN, which may not compel banks to require audited financial statements and advanced cash flow models. A basic system of book keeping and accounting will suffice for them to be able to qualify for a structured lending product.</li> <li>Formal businesses are those entities that are relatively larger in size and have a proper book keeping system. These are also registered businesses that are operating either under an association of businesses or under a formal regulatory license, with a fair amount of transparency in their accounting and book keeping systems</li> <li>Including the above gives us a fair representation of businesses that are eligible for all financial services being offered by banks and their extent of using banks as their main financiers and other service providers or are using banks for only holding their business operating accounts</li> <li>Formal businesses have more structured requirements than those who use banks only for products such as fund transfers</li> </ul>



Particular	Crietaria	Rationale
Turnover	<ul style="list-style-type: none"> <li>At least 60% with turnover less than average PKR 75 MN</li> <li>At least 20% with turnover more than average PKR 75 MN</li> </ul>	<ul style="list-style-type: none"> <li>The corresponding sample mix has been adopted to ensure majority coverage of small businesses in the overall sample size since these would be the primary candidates for programme lending products</li> <li>However for the purpose of understanding the financial needs of medium sized entities that are close to the threshold point of small and medium we have covered a minor portion to understand their requirement for structured loan products as well as other financial services generally required by businesses that are relatively mature and larger sized than small enterprises</li> </ul>
Employees	<ul style="list-style-type: none"> <li>At least 60% will have less than 20 employees</li> <li>At least 20% will have more than 20 employees</li> </ul>	<ul style="list-style-type: none"> <li>SMEs that are not in the manufacturing sector are relatively understaffed owing to the small size of their business and ease of management</li> <li>Moreover businesses that have more than 20 employees will now be classified as medium sized hence we have covered a small portion of such entities as well</li> </ul>

Particular	Crietaria	Rationale
Banking history	<ul style="list-style-type: none"> <li>At least 80% with banking history</li> <li>At least 5% with no banking history</li> </ul>	<ul style="list-style-type: none"> <li>As per SBP prudential regulations any business operated by an individual, but meets the classification criteria of the regulations will be termed under SME</li> <li>On account of above a majority of sample in the market are operating their businesses through a bank account (either in the name of the proprietor or in the name of the business)</li> <li>Most of the financial needs and preferences that are objectives of this assignment, have been obtained from the above sample who are using a bank for their businesses operating needs</li> <li>However a very small portion of the market is totally un-banked which is also touched during our survey to understand their reasons for not banking and fulfilling their needs for financial services through other, more expensive, informal channels</li> </ul>



### 3. Economic Overview

Pakistan's economy has shown resilience against shocks of high intensity which include domestic factors such as political uncertainty, security situation and international financial crisis, in addition to an unprecedented rise in food and energy prices. As per the Economic Survey of Pakistan, macroeconomic stability has been attained over the past two years leading to moderate recovery in the economy, despite one of the most serious economic crises in the country's recent history. The economy grew by 4% in FY2010, after a modest growth of 1.2% in FY 2008-09.

Indicator	Economic Considerations
Positives	Heavily populated, (over 170MN people) translating into strong future potential for improvement in purchasing power, leading to growth in consumer related segments
	Structural reforms have accelerated economic growth with strong momentum of real GDP growth of 7.0% from FY03 to FY08, although this is unlikely to be attained over the next few years due to economic slowdown and political uncertainty
	Rising rates of urbanization – with the UN forecasting the proportion of city dwellers climbing from 34.9% of the population in 2005 to more than 50% by 2035 – should continue to serve as a key driver of economic growth.
Challenges	Low level of foreign reserves, thereby enhanced vulnerability to external shocks
	Heavily dependent on funding from multilateral institutions and bilateral partners
	Despite rapid economic growth in recent years, poor per capita income just USD 1046
	Balance of payments portrays a bleak picture in light of rising oil prices, with oil imports of more than 50 MN barrels per year for catering local demand for fuel products

### 4. Industry Overview

#### Sub Segment Overview

Factors	Comments
Demand	With growing number of patients, increase in population, greater health awareness and lack of maintained infrastructure in public sector, high preference is placed on the private sector hospitals.
Supply	Private sector hospitals are comparatively very expensive than the public sector and unaffordable for the majority of the population.
Key Players	Agha Khan Hospital, Ziauddin and Liaquat National Hospital are the biggest players in the private sector hospitals in Karachi. Shaukat Khanum Cancer Hospital and National hospital are amongst the leading in Lahore
Trade Body	Private Hospitals Association

Factors	Comments
Regulatory Body	Pakistan Medical and Dental Council
Recent Developments	Government is keen on enhancing the public-private hospital partnership to tackle the overall social requirements for public health.
Future prospects	This sector exhibits a medium term potential subject to rise in population and increase in the income level of the population.

#### Demand

Pakistan has two parallel health care systems, public and private. The private sector's share in health care had been rather small in the beginning since great majority began as private practices and transformed into hospitals over time.

Increasing population, industrialization, resultant high level of environmental pollution and increased healthcare awareness and lack of focus on a structured public health care system has effectively limited the capacity of the existing public health care system in the country. This has given rise to high demand of private sector health care facilities to complement its public sector counterpart.

With growing number of patients and lack of maintained infrastructure in public sector, an increased preference towards private hospitals developed over the years, which seems to have become an icon of a promised quality care and treatment. However due to high quality services provided, private sector hospitals are comparatively highly expensive than the public sector and unaffordable for the large section of the population.

#### Supply

The human resource available for health care have gradually increased over the years and though there is annual output of around 5,000 medical graduates from both private and public medical colleges the current ratio of one doctor per 1,183 persons is below the recommended ratio by World Health Organization (WHO) of one doctor per 1,000 persons. There is however number of doctors, dentists and nurses which are not registered with (Pakistan Medical and Dental Council) PMDC and practicing hospitals/clinics.

There are many private practicing clinics but are mostly located in the urban areas of the country

where they are affordable and so in higher demand by the public. Their presence in rural areas is negligible due to their expensive treatment being out of reach for the masses.

An increasing number of trusts, NGOs and social welfare organizations have invested and support health facilities which are also today serving a very large cross section of the population. Most of such facilities are not for profit and therefore primarily run on donations and grants including Zakat.

### **Key Players**

Agha Khan University is a first rate private hospital located in Karachi and Hyderabad. They are the leaders of this segment's market, followed by Liaqat National Hospital and Shaukat Khanum Cancer hospital, located in Karachi and Lahore respectively.

### **Trade Body**

Pakistan Medical and Dental Council is the statutory regulating body of all the medical education and practicing institution, public and private. Its prime mission is to establish uniform minimum standard of basic & higher qualifications in Medicine & Dentistry throughout Pakistan. Private Hospital Association is the trade body of all the private hospitals in Pakistan.

### **Recent Developments**

The need for public-private hospital partnership is being strongly felt by the Government of Pakistan as the health issues are prevailing in the country is unmanageable for the public sector hospital alone. Private sector hospitals are being encouraged for the provision of health facilities especially in villages and small towns.

### **Future Prospects**

Low public expenditure by government, lack of expansion in the public health sector, increasing population with rising income levels indicates a high potential for growth for the private hospitals. According to our primary survey conducted, it has



been observed that 94% of the respondents perceive great growth in their business especially in the next five years.

## 5 Market Assessment & Overview

### 5.1 Market & Demographic Profile

Private sector hospitals are relatively well organized with sales based on a wide cross section of population considering the nature of service and treatments offered.

Most businesses are individual / family owned and although most of the owners have traditionally been doctors, there is now an increasing trend of individuals considering hospitals as investment business for commercial return and therefore have family based ownership. Underlying features inherent to the sub segment include:

- 1) Ability to assemble the professional and financial resources effectively
- 2) Good perception of business requirements
- 3) Restricted funding sources

Qualified staff is imperative to running this business with the use of latest technology in order to compete in its highly competitive environment. Modern machinery and equipments along with their maintenance are the major costs incurred by this sector.

High staff turnover is a constant threat to private sectors hospitals which dictate the level and quality of services they are able to provide and so affect their quality of treatment and service and corresponding revenue to a great extent.

#### Market Sizing and Lending Potential

Businesses in the sub segment are very widespread in various locations in the urban regions in the country with limited presence in the rural areas. The following tables present a cluster wise location of Private sector hospitals in Karachi and Lahore.

Locations for Private Hospitals	
Area	No. of establishments
Karachi	
Defence	50
Clifton	20

Source: Survey Findings

Locations for Private Hospitals	
Area	No. of establishments
Karachi	
Tariq Road and Bahadurabad	60
Saddar	50
Gulshan-e-Iqbal	80
Gulistan-e-Johar	50
Nazimabad	100
F.B Area	50
Korangi	50

Source: Survey Findings

Locations for Private Hospitals	
Area	No. of establishments
Faisalabad	
Peoples Colony	20
Jinnah Colony	30
Sir Syed colony	30
Christian Town	20
Rehmania Town	25
Ayub Town	20
Madina Town	30
Kohinoor Town	20

Source: Survey Findings

Locations for Private Hospitals	
Area	No. of establishments
Lahore	
Gulberg	30
Model Town	30
Defence	20
Allama Iqbal Town	40
Walton	20
Johar Town	20
Ferozpur Road	50
Wapda Town	20
Samanabad	

Source: Survey Findings

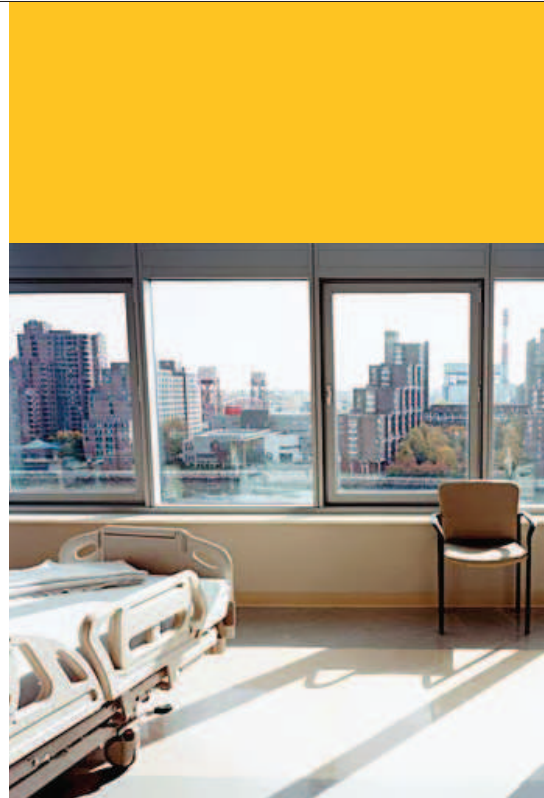
Locations for Private Hospitals	
Area	No. of establishments
Multan	
Saddar Multan	20
Railway Colony	10
Altaf Town	10

Source: Survey Findings

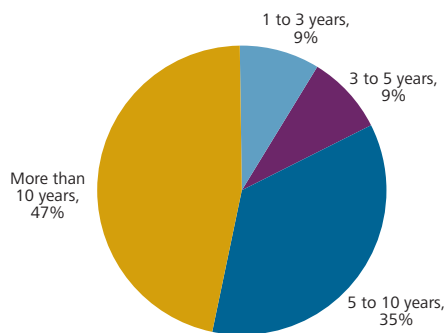
## Segment Demographics

The sub segment is widely spread out across various regions in the urban areas with very few present in the rural parts of the country. Demographic information is attained from industry sources and primary research conducted using a selected sample of businesses in major cities of Pakistan.

According to our primary surveys the owners have been running the businesses in this sector for more than 10 years or between five to ten years showing this sector to contain many established businesses along with new entrants.

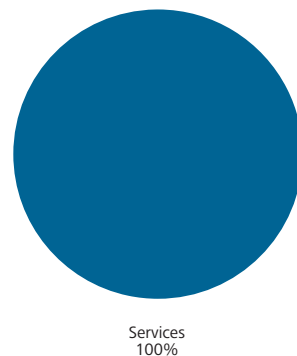


**Number of years in Operation**



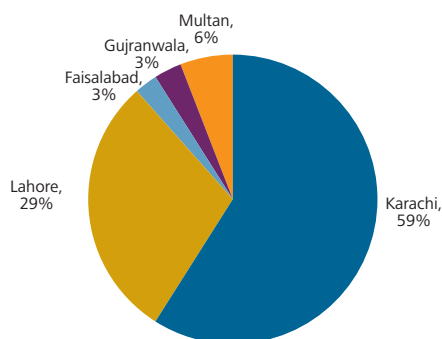
Source: Survey Findings

**Classification of Businesses**



Source: Survey Findings

**Location of Businesses**



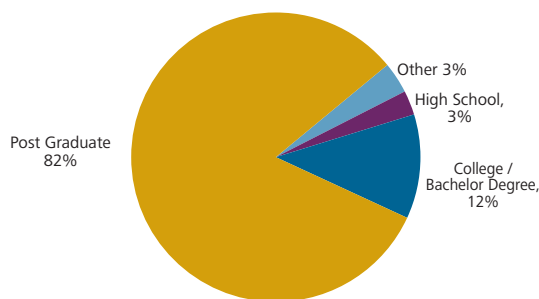
Source: Survey Findings

## 5.2 Owner Profile

The business owners consist of people in different age group mostly between 30's and 60's. As this sector is mainly operated by the qualified doctors and medical practitioners, education is a primary requirement, therefore majority of business owners have post graduate degrees. Despite the professional requirements for the business, interestingly most of these businesses are owned and run as family businesses like any other SME.

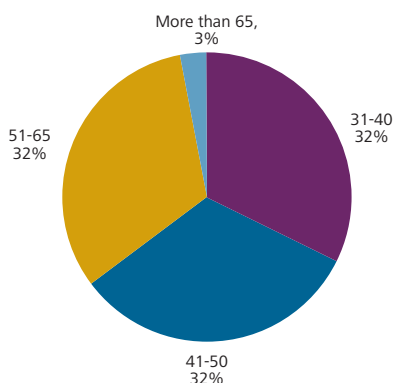
Majority of the business are run on individual / proprietorship with 32% on Partnership. The number of employees varies according to the size of the business setup, which varies drastically under SME segment of private hospitals, number of employees varies accordingly. As per our survey, the maximum number of staff in the business for SMEs was between 5-8 or less than 4.

**Education level of Business Owners**



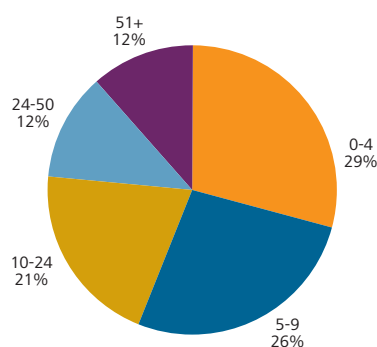
Source: Survey Findings

**Age group of Business Owners**



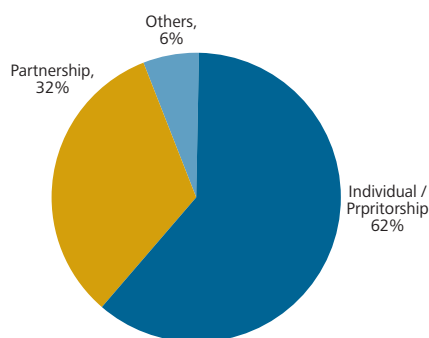
Source: Survey Findings

**Number of Employees under Business Owners**



Source: Survey Findings

**Ownership Type**



Source: Survey Findings

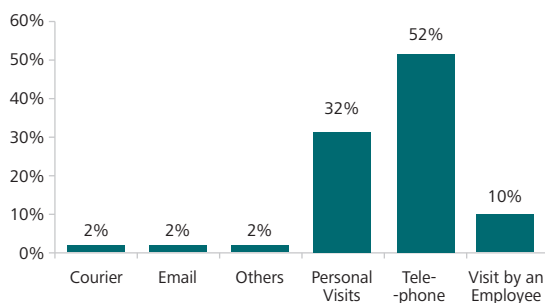
## 5.3 Business Linkages

Businesses in the sub segment are connected to various institutions, which are directly or indirectly affected by the business operations, Primary stake holders and their interests are enlisted in the following table:

Stakeholder	Private Sector Hospitals
Owners	Growth and access to finance
Suppliers (Surgical instruments, medical aids, etc.)	Better terms and lower risk
Customers	Availability of qualified doctors, service quality and reasonable pricing
Financial Institution	Debt servicing and increase in deposits
Government	Provision of healthcare, Expansion of taxation bracket, economic growth, benefit to community at large

Businesses employ various mediums as means of communication with its customers however, due to the personalized nature of services; personal visits by patients and telephone are widely utilized. Many organizations provide health benefits; enlisting selected hospitals on their panels for their employees. These organizations later reimburse hospitals for all bills incurred by the employees.

#### Communication with Customers



Source: Survey Findings

Businesses in the segment are predominantly serviced by formal suppliers and wholesalers though a small number of business owners utilize the informal market and individuals as their primary resource for supplies.

#### Major supplies for sub segments include:

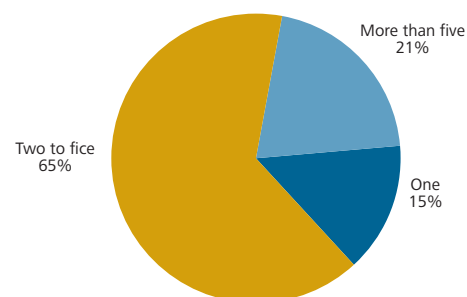
Private Sector Hospitals
Surgical instruments
Dental appliances
Plastic moulds. Medical aids etc.

Most of the business owners rely on the same suppliers to meet their business needs, except for some of them who place reliance on many suppliers.

In conclusion, it has been observed in our primary survey findings that supplier relations are consistent through formal wholesalers and they mostly rely between two to five suppliers to meet their requirements. Each supplier is chosen for a certain raw material, relying mostly on two to five on whom they have a strong reliance. Only 8% of interviewees were not satisfied with their supplier's consistency in meeting their requirements which shows that this sector has good supplier relationships.

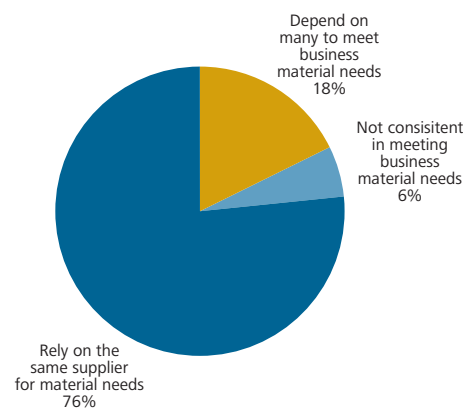


#### Number of Suppliers



Source: Survey Findings

#### Supplier Relationship



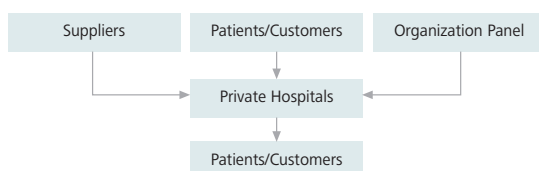
Source: Survey Findings

## 5.4 Business Cycle

This segment does not experience cyclical trends as such but with advent of winters, seasonal health issues increase compared to summers. The business is service based and so there is no heavy reliance on its suppliers.

Primary survey findings show that, random customers usually visit the hospitals with few for regular checkups. The business has strong reliance on referrals by the existing customers and recurring customers, depending mainly on word of mouth.

Many organizations provide health benefits; enlisting selected hospitals on their panels for their employees. These organizations later reimburse hospitals for all bills incurred by the employee.

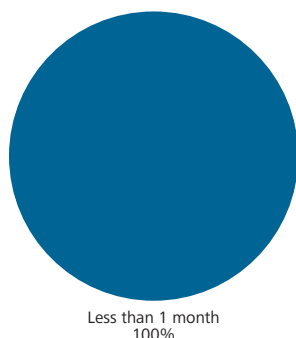


### Working Capital

Working capital is dependent upon payment terms offered to customers and received from suppliers, businesses in private sector hospitals operate on instant payment from customers.

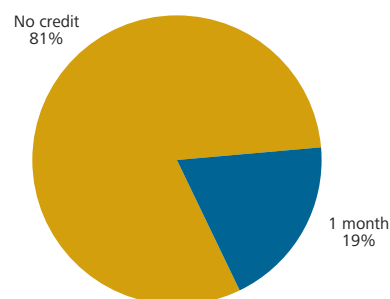
The segment works mainly on cash base payment to and from customers and suppliers respectively. Very few hospitals take loans from their supplier with tenure of less than one month. Considering the service nature of the business, there is very limited working capital requirements for the business.

### Repayment Terms offered by Suppliers



Source: Survey Findings

### Repayment Terms for Customers



Source: Survey Findings

## 5.5 Financial Assessment and Profile

Around half of the businesses in the sub segment prepare formal financial statements and duly get them audited by the accountants. Owners/managers keep track of accounts themselves. Absence of audits by chartered firms presents a constraint for preparation and keeping an organized track of cash movement.

From primary research and interviews conducted from trade associations, it has been identified that average income is between PKR 1-5 MN, with a great number banking on higher sales volume for earning better profits.

As per research findings, business owners in the sub segment did not possess specific information pertaining to their financial positions with regards to capital invested, business assets employed, annual revenue, income and expenses. The information gathered was an estimate provided to us by the interviewees.

Business owner's reluctance to share accurate financial data presents an issue for calculation of sector's benchmark financial ratios. Devising from the information attained in the course of primary research, the indicative ratios will be an estimate at best and cannot be utilized to assess an accurate position of the individual businesses operating in the segment.

Conclusively it can be said that there exists an ample demand for quality private hospitals in Pakistan and also that the existing scenario provides conducive opportunities for entry into this business venture.



## 5.6 Financial Information

Primary survey findings portray the following financial indicators for the segment under consideration. The results depict Total Average Capital, Assets, Revenue, Expenses and Income under the selected sample.

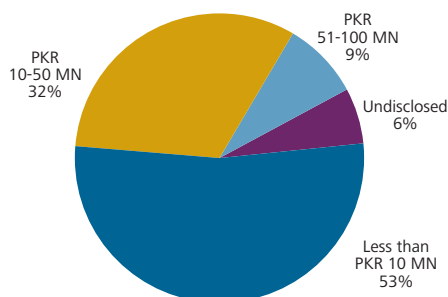
Survey findings demonstrate approximately 53% businesses operating with Total Capital and Total Assets less than PKR10 MN exhibiting a relatively low initial investment for startup. Total assets comprise of land and building, machinery and equipment, furniture and fittings, liabilities constitute trade payables and borrowing for working capital finance.

Business related assets constitute of technology high medical equipments and surgical instruments.



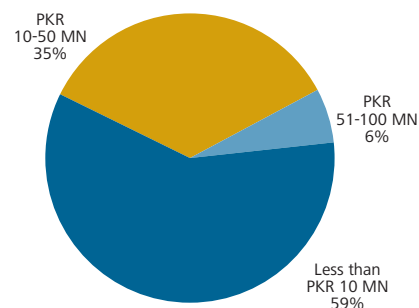
Annual revenue is predominantly less than PKR 10 MN of about 59%; about 35% of businesses have revenue between PKR 10-50 MN. Expenses primarily represent employee cost and machinery maintenance.

**Total Capital**



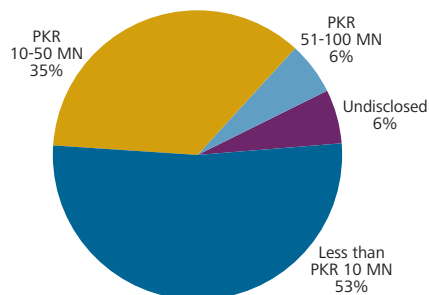
Source: Survey Findings

**Total Revenue**



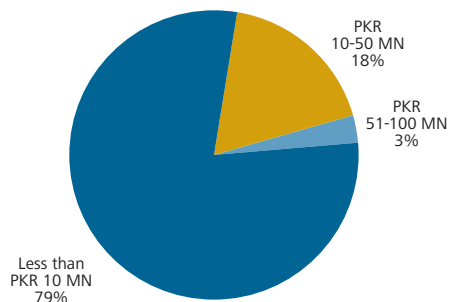
Source: Survey Findings

**Business Assets**



Source: Survey Findings

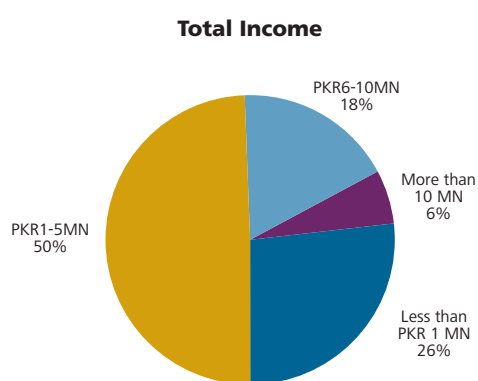
**Annual Expense**



Source: Survey Findings



All businesses display relatively fair earnings. Only 3% owners experienced a decline in their earnings over the last year. Around 50% respondents earn between PKR 1-5 MN with 18% exceeding their earnings between PKR 6-10MN.



Source: Survey Findings

### Benchmark Financial Ratios

Financial Information	PKR
Total Capital (Net Worth)	21,890,625
Business Assets	24,556,250
Total Revenue	22,352,941
Annual Expense	10,917,647
Total Income	4,733,824
Key Financial Ratios	
Profit Margin	21%
Operating Expenses/ Revenue	49%
Asset turnover	91%
ROA	19%

Source: Survey Findings

These are the benchmark financial ratios calculated on the basis of average value of financial information obtained from the sample of 34 entities in this sub segment. Such ratios will of course substantially vary for different sample sizes for each establishment individually.

## 5.7 Indicative Business Requirements

Business owners require equipment and civil works for start up or expansion. Hospital set up is capital intensive in venture. The values provided below are susceptible to volatility in market prices. In addition,

individual business owners will have distinctive requirements as per their business needs. The table below is neither comprehensive nor specific and presented only to provide an indication as to the typical requirement for set up or the expansion needs of a small sized business within this segment.

S.No.	Indicative Equipment Requirement	Indicative Cost (PKR)
1	ECG Machine	250,000
2	Wheel Chair	10,000
3	Surgical Equipment	50,000
4	IT Equipment	100,000
5	Ultrasound	300,000
6	X-ray Machine	250,000
7	BP Apparatus Mercury	5,000
8	Physiotherapy Equipment (Transcutaneous Electrical Nerve Stimulation, etc.)	800,000
9	Medical Weighing Scale and height Rod	15,000
10	Furniture and fittings (Hospital beds, stretcher, etc)	1,000,000
11	Ambulance (Hi-Roof)	800,000
12	Ambulance (Vans)	1,500,000



## 5.8 Financial Need Analysis

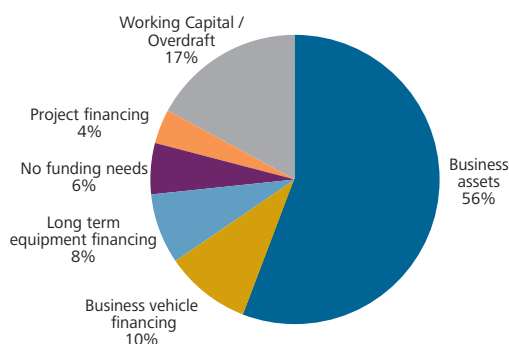
Funds are mostly managed by the owners themselves, mainly required for business assets and working capital which are mostly fulfilled by their own personal savings or cash flows from the business. Among the fixed assets, finance requirements mainly centered on machinery and equipment of the business.

According to our primary surveys, 68% businesses have funding needs for business assets out of which around 45% have fixed assets requirement for machinery and equipment and 21% for furniture and fittings.

The sector is generally underserved with respect to financing and banking products. The businesses operating in the segment are not very keen to obtain financing since the general perception within this segment of obtaining financing is complicated and has a lot of operational hassles.

From our primary survey, SMEs in private hospitals have preference for long term equipment financing and vehicle financing. 8% and 10% attributes to long term equipment financing and Business vehicle financing respectively.

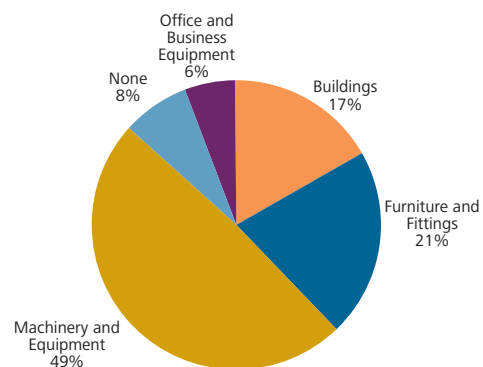
**Business Funding Needs**



Source: Survey Findings



**Fixed Assets Requirements**



Source: Survey Findings

## 5.9 Usage of Banking Products

The owners are largely unaware of any SME sector specific efforts made by the Government of Pakistan; however some business owners are aware of loan products offered by banks and have availed the facility of loan products for business funding needs.

70% of business owners stated that they use banks to meet banking and business needs availing the facility of business banking accounts but the owners are not keen to propose any feature or product to be offered by the bank.

The segment at large is reluctant to use any financing or loan product to meet funding needs, neither do they propose any specific loan product for the sub sector financing needs at large. Only 17% ever used a bank to meet their funding requirements for the business from which only 26% of the owners cited high interest rates and eligibility reasons for not applying for a loan.

In addition it is also observed that other services such as payroll and money transfer are discouraged by the sector whereas the response for cash management and collection services is healthy.

71% of respondents do not pay for any of the proposed Insurance products and 88% of them are not interested in availing any insurance product in future.

The segment currently is not paying for any advisory service and has demonstrated lack of interest in obtaining advisory services from banks; only 22% of owners are willing to pay for it, a majority is of the opinion that it is not the core function of banks.

Banking Product	Usage Percentage
Deposit (Checking) Account	79%
Term Deposits	23%

## 5.10 Segment Risk Considerations

Businesses in the segment are largely sole proprietorships, more than 60%, having this business as the only source of income and nearly 40% of the hospitals surveyed operate from rented premises which increase the risk from the view point of the lender.

The segment consists of 47% of businesses that have been working for more than 10 years with none of the SME's operating with unskilled workers; also almost half of the businesses are not formally registered with any trade union or association.

Around half of the Businesses in the sub segment do not prepare financial statements and very few of the remaining has an audit of financial statements. The analysis shows that the segment operates in a low competitive market with a maximum amount of businesses having one to five competitors. The majority

of subsector relies on the same supplier to meet material needs and considering the nature of the business, it cannot be stated to have a regular stream of customers.

A large proportion of SME's in the segment do not use Banks to meet business needs and are not paying for any insurance products.

### Risks inherent to the sector include:

- Availability of doctors and nursing staff to provide treatments
- Patient needs dependent
- Staff turnover

### Possible Mitigates:

- Lending only to those businesses which have been operating for more than five years
- Proposing products to business with a verifiable banking history of more than two years
- Review of accounts and register of invoices
- Qualified professionals in business

## 6 Proposed Banking Product Suite

### 6.1 Products Features

Based on our primary and secondary research we propose the following for social and economic growth of “*Health and Social Work – Private Sector Hospitals*” sub segment:

#### Asset Products:

- Medical Diagnostic Equipment leasing
- Lab Equipment Leasing
- Ward Expansion Business Loans

#### Liability Products:

- Business Bank Account
- Privilege Banking Account for Professionals

#### Other Products

- Bancassurance
- Branchless Banking (Mobile)
- Utility Bill Payment

Medical & Diagnostic Equipment Leasing	
Particulars	Details
Down Payment	<ul style="list-style-type: none"> <li>▪ Minimum initial down payment of 20%</li> </ul>
Salient Features	<ul style="list-style-type: none"> <li>▪ Medical Diagnostic Equipment leasing will be provided for expansion capital only to businesses with an operational history of 5 or more years</li> <li>▪ A pre-approved list of equipment and machinery manufacturers will be developed based on information received from trade association and market reputation</li> <li>▪ Credit facility will be offered directly through pre approved equipment and machinery vendors</li> </ul>
Tenure	<ul style="list-style-type: none"> <li>▪ 3 years</li> </ul>
Loan Limit	<ul style="list-style-type: none"> <li>▪ Minimum Limit - PKR 500,000</li> <li>▪ Maximum Limit - PKR 3,000,000</li> <li>▪ In order to ensure capacity of repayment for expensive equipment financing, the maximum limit of financing for equipment will not exceed the average annual turnover of the facility determined over a three year period.</li> </ul>



Medical & Diagnostic Equipment Leasing	
Particulars	Details
Documentation	<ul style="list-style-type: none"> <li>▪ One time documentation required for a period of five years</li> <li>▪ Financial Statements</li> </ul>
Repayments & Withdrawals	<ul style="list-style-type: none"> <li>▪ Repayments will be based upon preset Equal Monthly Installments</li> </ul>
Markup	<ul style="list-style-type: none"> <li>▪ As per prevailing KIBOR and spread</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>▪ Mandatory Insurance Requirement of the Banks</li> </ul>
Penalty	<ul style="list-style-type: none"> <li>▪ As per existing bank policies and cost of charges</li> </ul>

Vehicle (Ambulance) Leasing	
Particulars	Details
Down Payment	<ul style="list-style-type: none"> <li>▪ Minimum initial down payment of 10%</li> </ul>
Salient Features	<ul style="list-style-type: none"> <li>▪ Vehicle leasing only to businesses with an operational history of 5 or more years</li> <li>▪ A pre-approved list of vendors will be developed and used</li> <li>▪ Leasing facility will be provided</li> </ul>
Tenure	<ul style="list-style-type: none"> <li>▪ 5 years</li> </ul>
Loan Limit	<ul style="list-style-type: none"> <li>▪ Minimum Limit - PKR 1,000,000</li> <li>▪ Maximum Limit - PKR 3,000,000</li> <li>▪ A maximum of three vehicles to be offered under the leasing program with the value of such vehicles not exceeding the total average turnover of 6 months determined over the period of last three years.</li> </ul>
Documentation	<ul style="list-style-type: none"> <li>▪ One time documentation required for a period of five years</li> <li>▪ Financial Statements</li> </ul>
Repayments & Withdrawals	<ul style="list-style-type: none"> <li>▪ Repayments will be based upon preset Equal Monthly Installments</li> </ul>
Markup	<ul style="list-style-type: none"> <li>▪ As per prevailing KIBOR and spread</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>▪ Mandatory Insurance Requirement of the Banks</li> </ul>
Penalty	<ul style="list-style-type: none"> <li>▪ As per existing bank policies and cost of charges</li> </ul>

Ward Expansion Loans	
Particulars	Details
Indicative Tenure	<ul style="list-style-type: none"> <li>5 years</li> </ul>
Loan Limit	<ul style="list-style-type: none"> <li>Minimum Limit - PKR 1,000,000</li> <li>Maximum Limit - PKR 3,000,000</li> <li>Minimum and maximum loan limits are reviewed annually</li> </ul> <p>This is for existing hospitals that have owned premises and would invest in further expansion and for that would require civil works as well as furniture</p> <p>Total limit of loan offered not to exceed total annual revenue based on the average annual revenue of the last three years.</p>
History of Operation	<ul style="list-style-type: none"> <li>5 years</li> </ul>
Documentation	<ul style="list-style-type: none"> <li>Detailed documentation</li> </ul>
Approval	<ul style="list-style-type: none"> <li>Approved on basis of business proposal and RMG guidelines</li> </ul>
Collateral	<ul style="list-style-type: none"> <li>Land</li> <li>Building</li> </ul> <p>Ward expansion only offered initially to hospitals that operate from owned premises. Valuation of property offered as collateral to be undertaken by approved PBA valuer and verified by Manager/ RM.</p>
Markup	<ul style="list-style-type: none"> <li>As per prevailing KIBOR and spread</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>Mandatory Insurance Requirement of the Banks</li> </ul>
Penalty	<ul style="list-style-type: none"> <li>No early repayment penalty will be imposed on the borrower</li> </ul>
Hidden Charges	<ul style="list-style-type: none"> <li>No hidden charges</li> </ul>

SME Business Bank Account	
Particulars	Details
Minimum Deposit	<ul style="list-style-type: none"> <li>PKR 10,000</li> </ul>
Account Type	<ul style="list-style-type: none"> <li>Non-remunerative Current Account</li> </ul>
Documentation	<ul style="list-style-type: none"> <li>CNIC and business registration documents as per SBP guidelines</li> </ul>
Facilities	<ul style="list-style-type: none"> <li>Cvheque Book</li> <li>Upgraded ATM facilities</li> <li>Business Visa Debit Card</li> <li>Phone Banking</li> <li>Mobile Banking</li> <li>Monthly account statement</li> </ul>

Privilege Banking Account for Professionals	
Particulars	Details
Minimum Deposit	<ul style="list-style-type: none"> <li>PKR 100,000</li> </ul>
Account Type	<ul style="list-style-type: none"> <li>Non-remunerative Current Account</li> </ul>
Documentation	<ul style="list-style-type: none"> <li>CNIC and business registration documents as per SBP guidelines</li> </ul>
Facilities	<ul style="list-style-type: none"> <li>Cheque Book</li> <li>Upgraded ATM facilities</li> <li>Platinum/ Gold Visa Credit/ Debit Card</li> <li>Privilege Phone Banking</li> <li>Access to Privilege Lounge in Bank</li> <li>Other Privilege facilities offered</li> </ul>

Other Products	
Particulars	Details
Bancassurance	<ul style="list-style-type: none"> <li>Bancassurance products such as Business Premises Insurance, Personal Injury Insurance, Equipment and Vehicle insurance can be proposed by banks through its channels offering reasonable rates and servicing through banking channels such as direct debit</li> </ul>
Branchless Banking (Mobile)	<ul style="list-style-type: none"> <li>Mobile banking services for instance balancing check, bill payment and funds transfer</li> </ul>
Utility Bill Payment	<ul style="list-style-type: none"> <li>Service for easy payment of electricity, gas, telephone and cell phone bills</li> </ul>

## 6.2 Eligibility Criteria for Asset Products

Indicator	Description
Borrower Eligibility Analysis	Assessment of type of customers to take into account the total indebtedness of the borrower and his disposable income and should ensure that the total financing to a borrower does not exceed the reasonable limits as laid down in approved policies of the bank. Borrower should be a qualified medical practitioner and in practice for the past five years and hold a valid CNIC as well as valid Pakistan Medical and Dental Association registration
Business Analysis	To assess the Borrower's position their invoices will be verified and checked against banking history
Credit worthiness	Credit worthiness of the borrower will be ascertained by collecting information from CIB and other banks operating in the region.
Financial parameters	To assess average expenses, income generated and repayment capacity of the borrower.
Adherence to Lending Standards	To assess that Customer/ Borrower requirements are in compliance with standards set for revolving finance scheme by the Bank and/ or Regulatory Authorities.
Banking History	Verifiable banking history of more than three years with active accounts
Business Operations	Business should be in operation for more than five years

## 7 Distribution and Communication Considerations

SMEs in “*Health and Social Work – Private Sector Hospitals*” are spread out across the cities in various locations, therefore, a single location of delivery for banking products cannot be proposed.

Entry strategy for this sub sector is listed below:

### Marketing Objectives

Marketing objectives for building and promoting the brand image of SME Products for private sector hospitals are as follows:

- RM teams are to visit the Private sector hospitals to gain an understanding of the industry requirements and introduce them the means for their capital expansion
- Advertise banking products to private hospitals in order to create awareness of the banking products available for them

### Promotional Activities

To create awareness of SME specific products in the target market, the management will aggressively advertise various promotional programs and sponsored events:

- Workshops will be conducted to create awareness amongst business owners. Pakistan Medical Association could be partnered with to provide maximum exposure and awareness to Doctors who are running private hospitals.

Banks can service these SMEs through the following proposed channels (*Please note that this list is not exhaustive*):

- Direct Sales Agents
- Brochures

### Distribution Strategy

To reach maximum percentage of target market,



Banks need to have a comprehensive distribution strategy. Banks aims to cater banking needs of private hospitals sector through its products on national basis in major cities of the country.

Initially the bank will provide financing facility only in major urban areas of the cities; however, banks will penetrate into other small business market after establishing strong presence in major cities.

Banks will need to adopt conventional delivery channels:

- **Branches:** Establishment of lending branches in private sector hospitals with high growth potential to attract a large number of customers for SME Products
- **Direct Sales Agent:** This activity will be outsourced and trained marketing team will periodically visit identified areas within the cities to influence potential customers and create awareness of the product & features being offered under SME Products Suite.



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MCB Bank Limited  
Meezan Bank Limited  
National Bank of Pakistan  
NIB Bank Limited  
Soneri Bank Limited  
Standard Chartered Bank (Pakistan) Ltd  
United Bank Limited

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