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Mapping the market for **medical travel**

The market is smaller than conventional wisdom suggests, and most of today's medical travelers seek high quality and faster service, not lower costs. However, the potential for growth is significant.

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Article at a glance

Medical travel has captured the world's attention and imagination, but a new McKinsey study suggests that the market isn't as large as reported and that most medical travelers seek high quality and faster service instead of lower costs.

McKinsey places the current market at 60,000 to 85,000 inpatients a year, but these numbers could grow substantially if certain barriers, such as noncoverage from payors, were removed. Payors and providers looking to benefit from this nascent market have a substantial opportunity.

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Introduction

The idea of traveling around the world for medical treatment has captured much attention and imagination. As the debate on health care reform heats up in the United States, few weeks go by without a story about an under- or uninsured patient going to India or Thailand for heart surgery or hip replacement. Although medical travelers have many motives, lower-cost procedures and discretionary cosmetic operations represent only small segments. Most of these people seek the world's most advanced technology, better quality, or quicker access to medical care.

To create a rigorous and credible fact base about the nascent medical-travel market, McKinsey studied more than 20 medical-travel destinations; analyzed primary data on the number, type, and origin of medical travelers; and conducted interviews with providers, patients, and intermediaries in 20 countries. We place the current market at 60,000 to 85,000 inpatient[1] medical travelers a year—numbers far smaller than others have reported.

These smaller numbers hinge in part on our strict definition of medical travelers: people whose primary and explicit purpose in traveling is medical treatment in a foreign country. We excluded from our study patients who receive care on an emergency basis (such as ordinary tourists who become sick), "wellness tourists" (for example, people traveling for massages or acupuncture), and expatriates seeking care in their country of residence. We also excluded patients who travel in largely contiguous geographies to the closest available care, for they don't consider other medical-travel destinations and the financial burden is minimal.

Our examination of the motives and behavior of these patients reveals that this market has great potential for growth, though current volumes are modest. The benefits to providers attracting international patients are big—in addition to filling beds and increasing revenues per bed, such patients may boost an institution's domestic prestige. But fewer than half of the international inpatients at the providers we visited were true medical travelers. Furthermore, several global forces and a number of important structural barriers may prevent or inhibit the market's growth.

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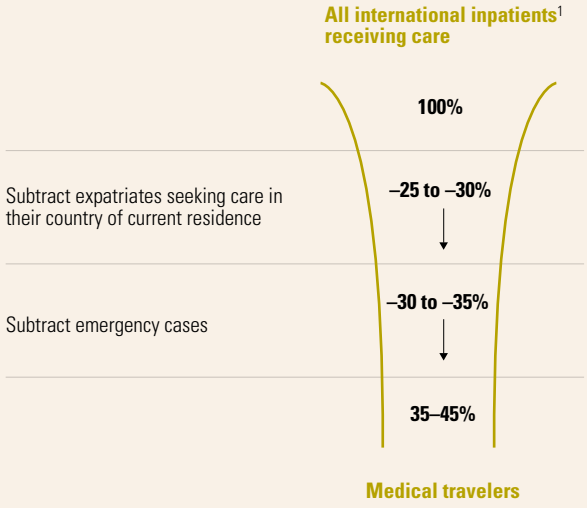
[1] Outpatients were not included in this analysis, because providers don't collect detailed data about them. We recognize, however, that some providers do have substantial numbers of international outpatients. Our survey showed that at one location, a significant number of these patients reported traveling primarily to receive outpatient care.

Exhibit 1

A market that's smaller than it seems



[1]Outpatients are excluded from analysis, because providers don't collect detailed outpatient data; a few providers, however, have substantial numbers of international outpatients.

Source: Interviews with providers and patient-level data; McKinsey analysis

The fate of the medical-travel market has important implications for the financers of health services (governments, health insurers, and employers), the uninsured, providers trying to attract medical travelers from other countries, and providers in countries where medical travel originates. Removing barriers to it—such as the reluctance of large US insurers to include medical-travel destinations in their networks, the absence of transparency in quality and outcomes, the lack of clarity on malpractice jurisdiction, and the difficulty of obtaining travel authorization to some destinations—could increase and accelerate the flow of patients into the market. Health providers, payors, and third-party brokers have a substantial opportunity.

Five discrete segments

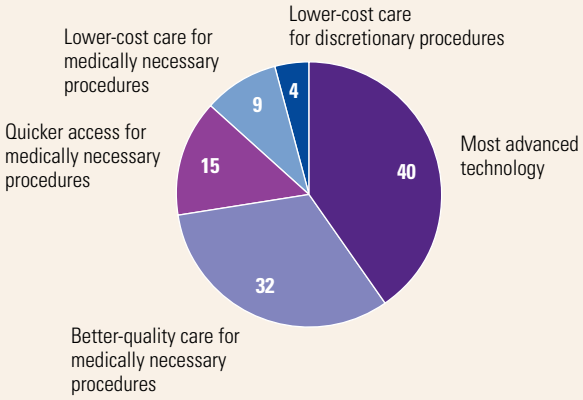
The largest segment, with 40 percent of all medical travelers, seeks the world's most advanced technologies. These men and women take their search for high-quality medical care global, giving little attention to the proximity of potential destinations or the cost of care. Most such patients—originating in Latin America (38 percent), the Middle East (35 percent), Europe (16 percent), and Canada (7 percent)—travel to the United States.

Exhibit 2

Quality drives most of today's market

Relative size of medical-traveler segments

100% = 49,980 patients[1]



[1]Number of patients come from providers that participated in research; total market size assumes that participating providers represent 60–80% of market.

Source: Interviews with providers and patient-level data; McKinsey analysis

With 32 percent of all medical travelers, the second-largest segment comprises patients who seek better care than they could find in their home countries, which are often in the developing world. When selecting a destination, such patients generally trade off perceived quality against burdens such as costs, distance, and unfamiliar cultures. Some of these people disregard costs to some degree; others are looking for higher quality at the best available price. Patients in this segment seek care in several different specialties, particularly cardiology.

The third-largest segment comprises people who want quicker access to medically necessary procedures delayed by long wait times at home for orthopedics, general surgery, or cardiology. Its numbers depend on capacity in the home countries, so health investments there can reduce the need to seek care abroad. Recent and ongoing infrastructure investments in the United Kingdom, for example, have focused on cutting wait times. Those for knee and hip replacements, which used to be especially long, have fallen by about 40 percent in the past six years.

While only 9 percent of the travelers seek lower costs for medically necessary procedures, this segment has the greatest potential for growth. Since the price of treatment varies greatly around the world, patients can save significant amounts, depending on the procedure. An aortic valve replacement costs more than $100,000 in the United States, for instance, but about $38,000 at a provider in Latin America, and only $12,000 at a provider in Asia. US patients make up 99 percent of the people in this group. In 30 percent of all cases, patients are traveling for orthopedic care, and in 16 percent, for general surgery.

Patients seeking lower costs for discretionary procedures, such as breast augmentation and reduction, abdominoplasty/liposuction, or rhinoplasty, come mostly from developed markets, particularly the United States. This segment, whose expansion correlates with growth in GDP and discretionary incomes, is the most fragmented: patients travel to many smaller, specialized providers rather than to large, multispecialty hospitals.[2]

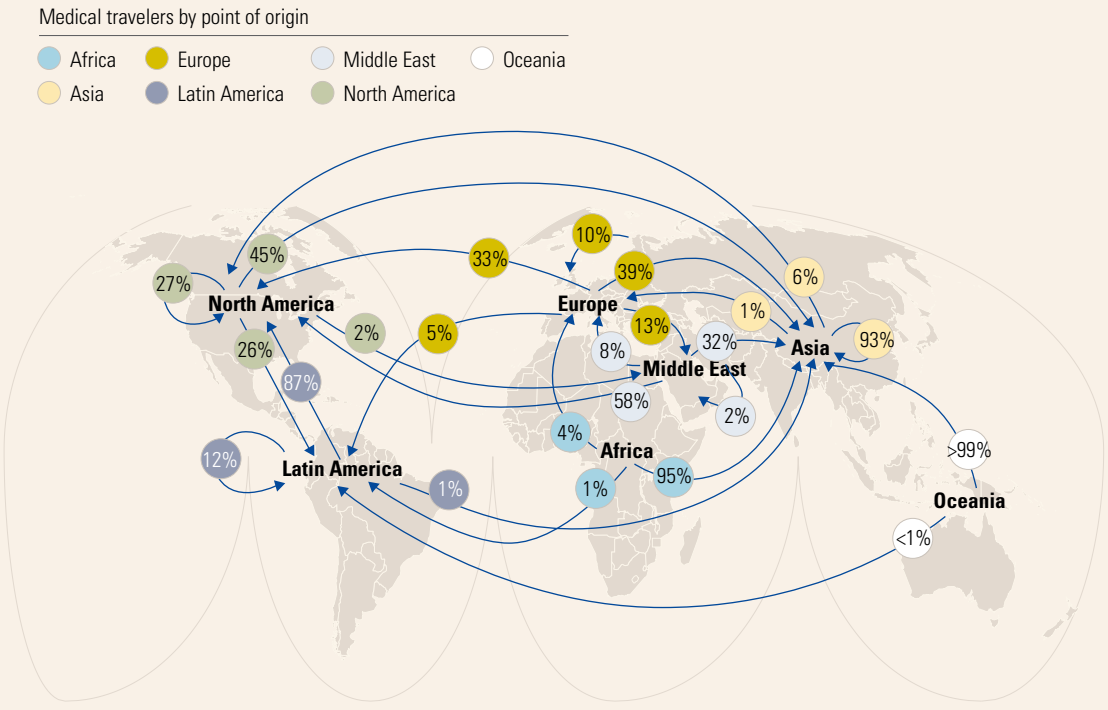
Medical travelers are highly satisfied with care

Medical travel is a truly global phenomenon: the patients, evenly split between people in high- and low-GDP countries,[3] come from and receive treatment in every continent. In our sample, patients from Africa, Asia, Europe, the Middle East, and North America sought care abroad in at least three continents.

[2] Our research focused on institutions, so this segment may be larger than our study indicates.
[3] We defined the threshold between low- and high-GDP countries at a GDP of $25,000 (purchasing-power-parity) per capita.

Exhibit 3

Across the globe



Source: Interviews with providers and patient-level data; McKinsey analysis

We interviewed patients who had traveled to the emerging world for medical treatment and found them largely satisfied with the care they received. Accreditation from the Joint Commission International (JCI), a not-for-profit, US-based organization that establishes standards and inspects providers who voluntarily agree to be assessed, appears to serve as an effective proxy of quality for providers. The providers themselves, however, are divided about whether the JCI accreditation process made their patients more confident about the quality of their services. Nearly every provider we visited had received this form of accreditation.

Much potential for growth

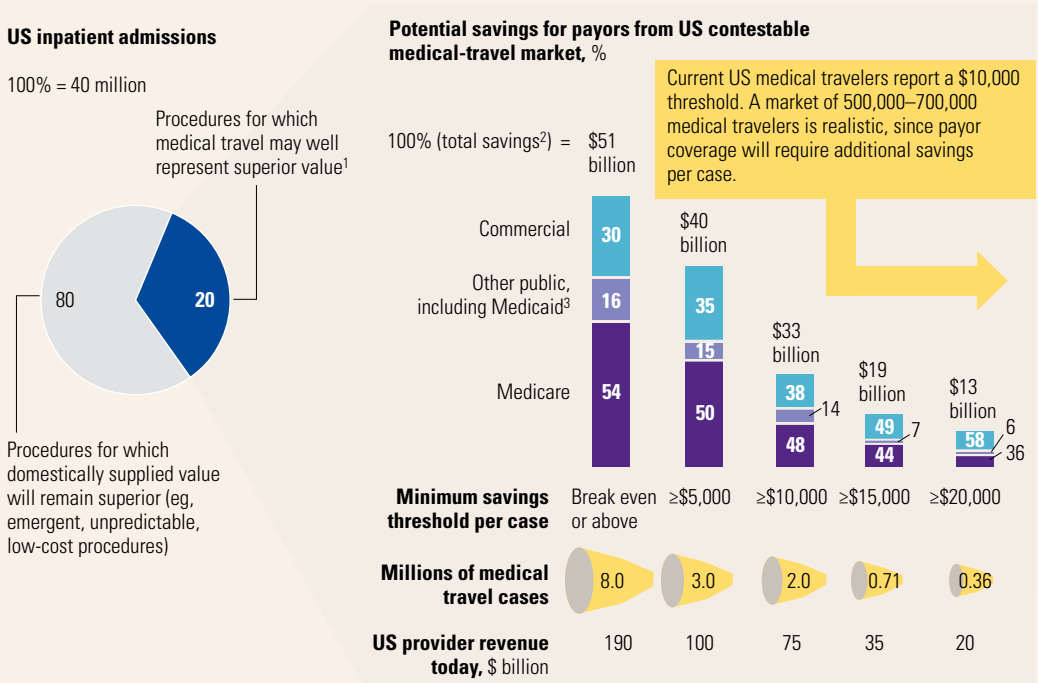
The medical-travel market is significantly smaller now than it could be in the longer term. Major barriers include the inability of providers in medical-travel destinations to enter the networks of the developed markets' payors, a lack of transparent worldwide data on the quality of health care, the inconvenience of travel, and the desire to undergo medical procedures in familiar settings.

Given the price differences between procedures in the United States and in developing markets, it might seem that US payors stand to gain substantially by including treatment abroad in their coverage. But the US market and competitive dynamics are not so simple. Continuity of care is a major consideration for patients suffering from chronic disease, and it's not clear how well a multinational approach to the delivery of care could address this issue. Besides, many procedures require follow-up treatment or additional operations, which should optimally be performed by the original surgeon. Furthermore, the unit cost of hospital care in the United States depends highly on the volume and overall capacity utilization of a facility. If 10 percent of the eligible procedures in a hospital were performed abroad, the fixed costs of delivering its services might be absorbed by the remaining procedures—and therefore by the same payors that actually seek to lower their *overall* costs.

What's more, though medical travel may offer superior value for elective surgical admissions—20 percent, or 8 million cases, of US inpatient admissions in 2007—the actual market will be significantly smaller, since payors and patients probably won't pursue overseas options in break-even or minimally profitable situations. The required savings for patients are likely to be more than $10,000 a case, the threshold reported by today's uninsured US medical travelers. If payors covered medical travel, the potential US market would probably range from 500,000 to 700,000 patients a year, compared with 5,000 to 10,000 today. The savings might be on the order of $20 billion.

Exhibit 4

Size of the prize



[1]Based on DRG-level analyses (DRG = diagnosis-related group).
[2]After costs for travel and lodging; estimated at $7,700 per case based on travel costs for patient and companion and two-bedroom suite in five-star hotel for average length of stay (7 days) plus 7 days for recuperation.
[3]Assumes Medicaid pricing is ~90% of Medicare fees.

Source: Healthcare Cost and Utilization Project (HCUP) Nationwide Inpatient Sample; Kaiser Family Foundation; Milliman payor claims data; Zuckerman et al, "Trends: Changes in Medicaid Physician Fees 1998–2003: Implications for Physician Participation," *Health Affairs*, June 23, 2004; McKinsey analysis

Other issues include the willingness to travel abroad, as well as how to give patients an incentive for doing so and to increase their awareness of medical travel in the first place. These problems would have to be addressed in parallel for this market to realize its full potential.

The medical travelers we interviewed were uniformly quite satisfied with their experience. They wouldn't hesitate to go abroad for care should they need it again and would strongly recommend that friends and family members do so as well. Some patients and family members were so pleased with what they perceived as the quality of care that they said they would seriously consider traveling abroad to get better care even if care were accessible and quickly available in their developed home countries.

Geopolitical events can quickly impact patient flows

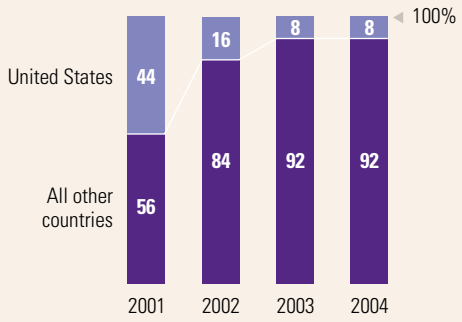
The providers we studied recognize that events driving the global economy at large (such as changing currency values) can affect their value proposition and flows of medical travel. This market is also particularly susceptible to geopolitical events and acts of nature that could influence the willingness of patients to visit a given country—or their ability to do so.

The events of September 11, 2001, for example, drastically reduced the number of Middle Eastern patients admitted to US facilities for care. In 2001, 44 percent of the medical travelers from one country in the Middle East went to the United States for care; by 2003, only 8 percent did so, because many travelers and their companions had difficulty obtaining US visas. Although the numbers have since bounced back to their pre-9/11 levels, the market took six years to adjust. In another major medical provider we studied, political instability led to a 33 percent decrease in medical travel.

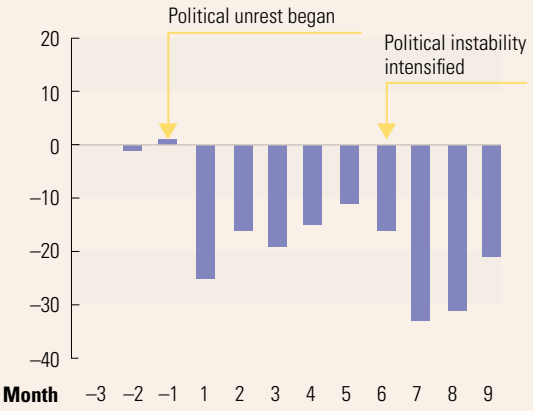
Exhibit 5

Shocks can shift patterns quickly

Effect of 9/11[1] on patient flows from one Middle Eastern country,[2] share of patients by destination country



Effect of political instability on medical travel: inflows to one destination country, % change from average for 3 months prior to political unrest



[1]Sept 11, 2001, attacks on World Trade Center and Pentagon; patients and companions seeking care in United States faced increased processing tme for approval to enter country.
[2]From 2001 to 2004, Germany's share grew to 34%, from 17%; reports indicate that number of patients going to United States in 2007 has returned to pre-9/11 levels.

Source: Interviews with providers and patient-level data; McKinsey analysis

Changes in national health care policy—such as investments in health care infrastructure or insurance coverage levels—in the major originator nations can also change the medical-travel market significantly. Spending on health service capacity or quality, for example, may make it less necessary for patients to travel abroad in search of higher-quality care or reduced wait times. In Oman, government-funded medical travel for oncology fell by 92 percent from 2004 to 2005 after an oncology center opened. In Abu Dhabi, government-funded medical travel for cardiology decreased by 55 percent from 2004 to 2006 after a cardiac-surgery team with significant international experience set up shop in the emirate.

Successful providers have clear strategies

Top provider destinations can offer treatment at a cost compatible with its perceived value, focusing on one or more patient segments, regionally or globally. Providers should consider and shape the quality of the variables they largely control, such as their local and international reputation, the credentials of their physicians, the outcome of treatment, and even the maintenance of infrastructure. Nonetheless, they must recognize that the perceptions of patients are heavily influenced by the provider's location—for example, the country's economic-development level, which can affect perceptions of safety and ease of transportation, and its reputation in a patient's country of origin. Providers in any country should also assess its general relationship with foreigners, its attractiveness as a tourist destination, and its cultural affinity with the home countries of potential patients.

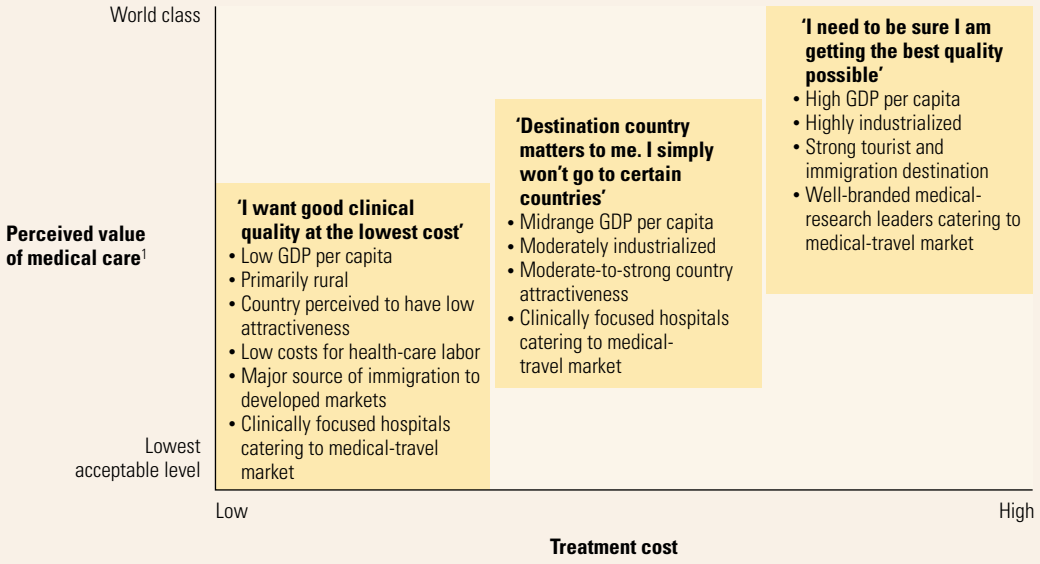
Medical travelers either approach providers directly for information on physicians, the price of procedures, and logistics, or they work with intermediaries. As a liaison between a potential patient and providers, intermediaries typically collect from them a percentage (up to 20 percent) of the price of the treatment. Patients often find providers and intermediaries on the Internet after seeing news reports on medical travel or hearing about it by word of mouth. The phrase that patients type into the initial search field often influences which provider or intermediary they choose.

Successful providers offer services, such as translators and airport pickups, to ease patient worries, from travel hassles to cultural disconnects. In particular, successful providers reassure patients by giving them access to physicians ahead of time. Many medical travelers know more about their doctors overseas than about their doctors at home: they have the physician's CV in hand, have spoken with the physician, and receive assurances that during their stay they'll have 24-hour access to personal care from the physician.

Exhibit 6

The right price

Impact of patients' goals in seeking medical care on acceptance of cost and characteristics of provider countries



[1]Includes patient's perception of both country and clinical-quality metrics.

Source: Interviews with providers and patient-level data; McKinsey analysis

The more advanced providers have systems and processes to accommodate the special demands and idiosyncrasies of medical travelers. Some patients seeking quality care abroad, for example, arrive ready to pay in cash. The normal delays associated with billing won't do for these travelers—the provider must be able to expedite billing and track its progress so that patients can pay before leaving.

To some extent, the services of intermediaries and providers overlap, but providers have already shown that they can build reputations and generate traffic by themselves. Intermediaries must therefore specialize and define a value proposition to avoid the fate of traditional travel agencies.

Implications for players in the medical-travel market

Commercial and government payors in developed markets stand to capture significant cost savings by offshoring elective surgical care. Rising US health care costs could translate into substantial payoffs for commercial payors that accommodate medical travel and for the federal Medicare program.

To establish the feasibility of medical-travel products, however, payors must first answer some basic questions. These include how to evaluate foreign medical providers, to encourage beneficiaries to choose them, to control the potential community backlash, and to manage medical-travel malpractice exposure and follow-up treatment.

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Established providers need to determine what steps they would take to capture the potentially large upside of medical travel sponsored by third parties. These providers should, for example, evaluate how much to invest now to prove conclusively that they provide adequate clinical quality, to pursue relationships with payors, to establish new facilities, and to accept malpractice exposure in originator countries.

Providers aiming to capture this market should develop strategies to counter each of the barriers limiting their penetration of contestable procedures in originator markets. Established providers cover the market fairly well, so the entry of new ones probably won't expand it substantially unless the barriers to growth fall. Entrants will therefore compete with established players largely within the current market framework.

Given the limited size of the medical-travel market, domestic providers are concerned about it now primarily in the form of exposure to medical liability if they provide follow-up care. However, they could face serious competition if the payors' networks open up to foreign institutions.

Medical travel is a highly relevant market worthy of further observation. The acceleration of unsustainable health care costs in many developed economies, the advent of advanced technologies in just a few locations, and the increasing concentration of wealth in developing economies are only a few of the factors fueling it. Over the next couple of decades, these trends may largely dispel the idea that health care is a purely local service. Q

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