POLICY BRIEF

CUTS Centre for Competition, Investment & Economic Regulation
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Need for Competition in Healthcare Sector

The healthcare sector in India consists of hospitals and allied services, such as medical education, medical devices, diagnostic centres, path laboratories and medical insurance as well as pharmaceuticals. With the growth of private practice in the field of health sector and the interaction of a complex set of demand and supply factors, many undesirable and anticompetitive practices have also grown in the sector. Private hospitals and clinics constituting a major portion of this public-private mix sector have often been found of violating the basic principles of providing healthcare services, affecting both affordability and accessibility of quality healthcare services for common people.

Entry barriers created in the field of medical education often impedes the much needed expansion of healthcare services. It also affects the quality of medical and para-medical professionals in the country. There are other issues also like nexus between doctors and pharmaceutical firms that leads to increase in the medical expenditure of common people. This Policy Brief is an attempt to address several issues in the healthcare sector that could possibly facilitate the process of infusing competition in the sector.

Introduction

Healthcare sector is completely different from other sectors as consumers have very little role to play and hence are not able to make any informed choices except to buy and consume whatever is prescribed or dispensed to them.

The overall share of private healthcare sector is 80 percent of all out-patient care and about 60 percent of all in-patient care, which was only about eight percent of all qualified modern medical care during the time of independence. This data also reflects the worsening condition of public healthcare sector in India and lack of planning from the part of the government.

The private healthcare sector has maintained a very steady and sustained growth rate over the years which has certainly helped them together to achieve the dominant position in this sector, but on the another side this growth has remained largely unplanned, fragmented and unregulated.

Taking all these facts under consideration, it becomes very important to induce and introduce competition in various aspects viz, medical education, medical devices, diagnostic centres, path laboratories and medical insurance, related to healthcare sector. Application of Competition policy and law in healthcare sector would help curbing down anticompetitive practices leading to improved quality, affordability and accessibility of healthcare services in the country.

Health Services

Background

Health delivery system falls under three different levels e.g. primary healthcare, secondary healthcare and tertiary healthcare. Uneven distribution of healthcare services between rural and urban areas is one of the major issues that creates obstacle in ensuring quality healthcare service for the entire population. It is imperative for the government to ensure equal distribution of healthcare services at all levels.

Also, the fact that Indian government has not been able to provide proper public health service around the country on 24x7 basis, has left people with no other options but to rely on private healthcare which has often found to be more focused towards profit maximisation and not so concerned about human welfare.

These problems can be attributed to low public healthcare expenditure, which at present stands at 1.2 percent of gross domestic product (GDP) and which is far below the average percentage of GDP spent by other developing nations for providing healthcare services. It has implications on other aspects related to healthcare sector, such as bed availability which is as low as 70 beds per 100,000 people.

This has resulted into exploitative nature from the part of private health sector affecting the whole society adversely as they do not face competition from public healthcare sector. It is imperative for government to apply breaks on these practices followed by private healthcare sector through improving public healthcare delivery system.

There are other concerns also such as collusion between doctors and pharmaceutical companies. Pharmaceutical companies provide incentives to doctors for prescribing their products. Same trend is being followed by pathological labs.

The nexus between doctors and pharmaceutical firms lead to uncompetitive environment in both healthcare and pharmaceutical firms, downplaying the generic competition for consumers.

Recommendations

- Government spending on health should be increased. The present public health expenditure which is 1.2 percent of GDP is not enough to meet ever increasing demand for healthcare services.

  It would also help to bring competition in the sector which is mostly being dominated by private players.
- Formation of regulatory framework and implementation mechanism that could help curbing down anticompetitive practices in healthcare sector
- Strict enforcement of guidelines and regulations for curbing down unethical practices being followed by the pharmaceutical firms and the doctors
- Encouraging public private partnership (PPP) could be another way for improving the quality of healthcare services in country. Private players could bring in the money required for developing medical infrastructure in the country hence ensuring quality healthcare services for common people while government should come up with adequate policy measures imperative for providing momentum to such changes.

Medical Education

Background

Medical education is one of the most important aspects that could determine the affordability and accessibility of the healthcare in the country. India's average annual output is 100 graduates per medical college in comparison to 110 in North America, 125 in Central Europe, 149 in Western Europe, 220 in Eastern Europe and China, with 188 colleges, produces 1,75,000 doctors annually with an average of 930 graduates per college. At present, the strength of quality medical professionals in the country is lacking.

The major drawbacks/entry barriers in this area are initial establishment cost for new hospital coupled with difficulty in access of land zones for such healthcare projects create doubts in the minds of investors. The other problem constitutes of limited domestic manufacturing capacity in the area of medical equipments, up to 70 percent of such equipments and devices are imported. Medical equipments can constitute around 30 percent of all fixed assets because of this, and despite recent reductions in import duties.

Further, guidelines provided by Medical Council of India (MCI) also create obstacles in setting up institutions providing medical education as it does not allow corporate hospitals to provide any sort of training facilities. The guidelines are inadequate in terms of laying down rules regarding size of land required for building new hospitals, number of classrooms, their sizes etc.

With no proper regulation and inadequate structured planning in medical education field related to practitioners and training providers, it is becoming impossible for institution providing medical education to flourish successfully both in quality and quantity terms.

Recommendations

- Increase in number of medical colleges will ultimately increase number of graduates passing every year

- Flexible and proper regulation to ensure easy acquisition of land for construction of new medical infrastructures in all parts of the country
- According to the MCI guidelines, only government or trust hospitals can set up such education facilities. It does not allow corporate hospitals to set up training facilities, even though it has permitted a number of substandard private medical colleges that have political acceptance. So, the Council must be in favour of both parties for positive future of medicinal sector
- MCI guidelines should be more realistic while defining rules regarding size of land required for building new hospitals/medical institutions, number of classrooms required in a medical institution etc.

Health Insurance

Background

Health insurance could be highly effective in terms of making healthcare services accessible for common people in India. However, the present condition of health insurance in the country could not be considered as encouraging with only two to five percent of population having health insurance. Introduction of *Rashtriya Swasthya Bima Yojana* (RSBY) in the year 2008 is one major step taken by the government to improve these figures, especially in rural areas.

The recent trends in this area have shown some improvement with growth of 20 to 25 percent per annum. During 2006-2010, the health insurance industry has registered a compound annual growth rate (CAGR) of 39 percent and it is likely to cover 20 percent of population by 2015.

There are more than 20 companies providing health insurance coverage in India with majority of market share controlled by the four public sector undertaking (PSU) companies. However, there has been significant decline in the market share of these state owned insurance companies with private players making their presence felt gradually.

However, these developments are not enough to improve the accessibility and affordability of healthcare services for poor people for whom availing these services still means sacrificing upon their other requirements. A study conducted by the World Bank highlighted the fact that medical expenses often leads to poverty for millions of people in India.

As mentioned above, health insurance could play a major role in improving upon these chronic attributes of the healthcare industry. There could be various forms of health insurance for people belonging to different income classes. Upper and middle class population could rely upon the private insurance, on the other hand government could provide subsidised health insurance schemes for poorer section of the society, which in turn could be a mix of social, community, public or private health insurances.

There are certain loopholes associated with health insurance system in India that often mar its overall impact. As far as private insurance is a concerned, high premium rate, denying coverage to sick people, old and women, excluding some important diseases, limiting coverage for high-cost conditions or services; and asymmetry in information and lack of regulation of healthcare providers who often tend to inflate the medical bills of insured people, indemnity approach followed by the insurers whereby the insured first pay the medical expenses and then seek reimbursement are some of the major challenges.

Inadequate supply of healthcare services in rural areas further restricts the overall growth of health insurance industry. Absence of basic facilities neither encourages people to have health insurance nor provide incentive to companies to improve their reach in these areas. Government schemes also suffer due to this limitation.

In addition, regulation regarding requirement of a minimum capital of Rs.100 crore discourages private players from entering the industry. It has adverse impact on public interest.

Recommendations

- Adoption of scientific method to ascertain actual risk and fixing of premium according to it. It would help controlling high premium rates, a major factor leading to low penetration of health insurance
- Follow of indemnity approach, whereby the insured first pay the medical expenses and then seek reimbursement must not be practiced
- All known serious diseases are in the exclusion list of the coverage. Therefore, those most in need do not enjoy the fruits of health insurance. Steps are required to pursue health insurance providers to cover these diseases
- Regulation and control on medicine provider behaviour, quality and cost of drugs is urgently needed to mitigate adverse impact on health insurance penetration

- Removal of 100 crore cap specifically for health insurance may bring in new players in the market, hence more competition resulting in more benefits for consumers
- Development of proper medical infrastructure in rural areas. Increase in the supply of secondary and tertiary healthcare services would enhance penetration of health insurance

Medical Devices

Background

Medical device market in India is quite diverse in its product availability, which includes medical and diagnostic equipment; medical implants like heart valve and cardiac stents, pacemakers, knee joints, blood bags, syringes etc.

In India, there are around 700 medical device makers; however, major players remain the foreign companies. Although the Indian market for medical equipment and supplies ranks among the world's top 20, it is still plagued by low penetration and remains disproportionately small.

The presence of sufficient numbers of domestic and foreign players though makes the sector highly competitive, yet it is fragmented. While domestic firms primarily manufacture low technology products such as disposables/medical supplies, multinational corporations (MNCs) primarily import high end medical equipment.

Regulation regarding medical devices is another aspect that requires complete overhauling for improving condition of the industry. It has no separate legal status and is regulated by Drug Controller General of India (DGCI) under Drugs and Cosmetics Act 1940. The approach to regulate the medical device industry results in application of meaningless rules.

In some cases, product registration and manufacturing standards intended for drugs are applied to medical devices – e.g. it is insisted that an expiry date be given on certain medical devices, whereas it is not required for such products.

Recommendations

- Provision for incentivising local manufacturers of medical devices. The current duty structure and other fiscal benefits for medical devices and equipment favour imports, reducing the competitiveness and growth potential of the local industry.
- Separate authority/agency/body for regulating medical devices industry. The present system of regulating the industry through DGCI results into application of unnecessary rules further obstructing growth of the industry.

This Policy Brief is written by Rudra Shankar, Research Associate, CUTS International and based on the sector report on Healthcare Sector done by Ujjwal Kumar for Indian Institute of Corporate Affairs (IICA) for CUTS Centre for Competition, Investment & Economic Regulation (CUTS C-CIER).