Chapter 7

Health Insurance: Challenges
Face in the Indian Society
Health Policy Challenges for India

Introduction:
In India has limited experience of health insurance. Given that government has liberalized the insurance industry, health insurance is going to develop rapidly in future. The challenge is to see that it benefits the poor and the weak in terms of better coverage and health services at lower costs without the negative aspects of cost increase and over use of procedures and technology in provision of health care.¹

India faces enormous challenges as it builds its healthcare system to meet the rapidly growing needs and desires of a burgeoning middle-class that will increasingly want, expect, and ultimately demand, world-class healthcare. Great challenges bring great opportunities. Enterprising companies, individuals and government entities are rising to the challenge and doing wonderful things in India’s healthcare sector.²

India needs a healthcare system that can meet the demands of over a billion people, most of whom are unable to bear the burden of healthcare costs – each year 39 million people are pushed into poverty because of their inability to meet healthcare costs. The challenges are gargantuan, as our cover stories point out: India leads the world in terms of maternal deaths;

2. ARNOLD J. ROSOFF “Building India’s Healthcare System: A Cautionary Note” Arnold J.Rosoff is Professor of Legal Studies and Healthcare Management at The Wharton School, University of Pennsylvania.
there is a dearth of qualified medical professionals in rural areas; health insurance covers only about a fifth of the population while unorganized private sector accounts for almost 80% of outpatient healthcare. India faces enormous challenges as it builds its healthcare system to meet the rapidly growing needs and desires of a burgeoning middle-class that will increasingly want, expect, and ultimately demand, world-class healthcare. Great challenges bring great opportunities. Enterprising companies, individuals and government entities are rising to the challenge and doing wonderful things in India’s healthcare sector.  

Nearly 80% of outpatient healthcare and more than 50% of hospital care in India is provided by the private sector. For patients, this is generally an out-of-pocket expense, to an extent where many have had to sell assets and take loans to finance hospitalizations.  

Besides cost, an additional problem is that outpatient services are mainly provided by fragmented and unregulated healthcare providers, many of them in the informal sector with limited or no formal training in healthcare. India would have one of the highest numbers of healthcare workers per capita in the world, if the informal providers are taken into account. However, the quality of health services is a major concern, with over-prescription of


4. Sofi Bergkvist, “Healthcare Finance: The Road Ahead.” Sofi Bergkvist is senior researcher at the Centre for Emerging Markets (CEMS) and the founding Managing Director of ACCESS Health International.
antibiotics, use of steroids and delayed referrals, being serious issues that are commonly encountered. Good Practices, but Limited Scope India is also home to a unique pool of entrepreneurs who have developed processes for high quality and low-cost care. These healthcare providers have developed their own cadres of professionals and Para-professionals to perform specific tasks after internal training. This has brought down cost and increased specialization. As a result of these innovative practices, major improvements in health outcomes have been documented in maternal and child health, eye care, cardiology and also primary healthcare. However, only a fraction of the population has access to these healthcare providers. Majority of the care is still provided by the highly fragmented and unregulated healthcare providers.

Information Asymmetry One of the main issues characterizing the healthcare market is information asymmetry. Patients are ill-equipped to judge the providers based on the quality of services, and prices are rarely transparent. It is hard to ensure value for money and compare the healthcare providers. Over-investigations and over-treatments are prevalent. The Government of India has limited information about the quality of care provided in the public sector and hardly any information about the private sector, where most people are treated. 5

This issue is important because information asymmetry leads to market failure, which means that the services of highest quality and best price are not competitive because patients do not have sufficient information to make informed decisions. This is certainly the case in India, which is characterized by an unregulated market. The government must incentivize the provision of quality healthcare and penalize behavior that leads to poor quality of

5. Ibid,
Enforcing regulation is a challenge in India but strategic purchasing and effective management of information can address many issues that regulation fails to address. In the last four years, large-scale insurance schemes have been unveiled in India. One such example is the Aarogyasri Health Insurance scheme in Andhra Pradesh, which has networked 241 private and 97 government hospitals to provide cashless treatment of 938 hospital procedures for more than 70 million people. This makes it one of the largest health insurance programmes in the world. The government pays the premium of Rs 439 per family per year and there is no co-payment by the families. The government believes that the administration cost to collect premium would not make it feasible as of now. The awareness of this scheme is high. We surveyed 534 households in the low-income areas of coastal Andhra Pradesh and reported 100% awareness and appreciation of the scheme. Thus far, about 4.5 million people have been screened at health camps that all networked hospitals have to provide every week, in locations decided by the government.\(^6\)

This new platform provides opportunities for the government to serve as a strategic purchaser of services monitor the quality of care and address issues of information asymmetries. Some measures have been taken to impact the providers – more than 70 hospitals have been delisted and barred from being

\(^6\) Ibid, \(^7\) Ibid, BY Sofi Bergkvist, “Healthcare Finance: The Road Ahead”, Sofi Bergkvist is senior researcher at the Centre for Emerging Markets (CEMS) and the founding Managing Director of ACCESS Health International.
reimbursed by the government after they were found to have inconsistencies. However, there remains a lot to do in terms of standardizing and improving the quality of care through this platform.

The Indian population has experienced great advances in its health situation. India’s Achievements in Health: Great Progress and Persistence of Problems

For instance, life expectancy at birth increased from 50 years in 1970 to an estimated 62 years in 2011 and is possibly even greater now. These are substantial improvements; the performance of the other states is quite well. But there are challenges are the growing prevalence of chronic illness in the Indian population, such as obesity, heart disease, diabetes, hypertension and the like. This has partly to do with changing dietary habits, from coarse grain to energy rich diets of meat, milk products, and sugar. It has also to do with an urban population growing fast this have challenges to available health care facilities to all. At any point in time, an individual’s health status depends on a range of factors.\textsuperscript{8}

These obviously include the endowment of health that an individual started out with – genetic aspects, as well as parental health. It will also depend on choices that various individuals or their guardians make. These choices may relate to lifestyle factors, such as smoking and alcohol intake, frequency of exercise, the quality of nutrition, as well as on the access to good quality medical care when sick. The health status will also depend on exogenous events, such as the contraction of infectious diseases. The latter may, in turn, be dependent on the availability of clean water, sanitation facilities, and the immunization status of the individual, and so on.

Economists often describe these relationships through the device of a health production function. Good health, in addition to the initial endowment, is determined by individual preferences, the socioeconomic circumstances that help shape those preferences (such as marital status, cultural and religious factors and education), incomes, and the prices of different items consumed by an individual, including health inputs and the quality of such inputs. By influencing these choices, the government may play quite a substantial role in improving health. For instance, many of the decisions that individuals take about health depend on the information that they possess about potential health impacts.\footnote{Ibid,}

To the extent that information is a public good, markets may fail to provide all the information relevant to healthy lifestyle choices to individual agents. Governments also intervene in situations where illnesses are very expensive to treat. Those who fall sick face the consequence of significant financial costs of treatment in the absence of insurance, with possible catastrophic effects on living standards. It is true that catastrophic illness, whose incidence is often uncertain for an individual, creates a demand for insurance among those who can afford it. Such insurance is, however, underprovided by the market. By providing subsidized health services, or health insurance, the government can influence the consumption of health care by those in need of it while mitigating the inequity enhancing effects of illness. Government intervention is also desirable on account of the asymmetry of information that prevails in the market for medical care—with doctors (perceived to be) having much better information about the status of a sick person than the person himself.
This creates an incentive for doctors to provide more services to patients than may be medically necessary and lower quality care. For these reasons, protecting children and adults against infectious diseases, promoting better quality of care, and ensuring that families and individuals do not face inordinate financial risks related to catastrophic illnesses, form key objectives of public health policy. In influencing the choices that make for better health and lowered financial burden of ill health, the society is typically faced with three key challenges.  

The first has to do with controlling the cost incurred in the provision of health interventions that it supports – be it care, health care regulation, or provision of insurance -- given that resources are limited and face competing demands for their use. The second is to achieve an equitable distribution of the financial burden of ill health and morbidity. This is a direct consequence of the fact that societies are concerned not just about improvements in average health but also, especially, about the health and economic welfare of the socially and economically marginal groups in society. A third issue is to ensure the quality of medical care that is provided, because of its central importance to people who need care, and also because of its direct link to the cost-effectiveness of care provision. Growing at a healthy 30 per cent annually, health insurance continues to be one of the most dynamic sectors. It has been one of the major drivers of growth for delivery of quality healthcare services.  

10. Ibid,

However, health insurance sector has still a long way to go and there are several challenges to overcome to extend the reach and scope of insurance coverage. Identified below are the seven succinct challenges with possible solutions that health insurance sector must live up to in order to fuel next wave of growth, and to catch up with other developed countries and achieve universal health coverage.

Health insurance sector must continuously develop and introduce innovative products and pricing, distribution channels which are the key drivers of growth for this sector. The industry must build up robust data repositories, data analytic capabilities and information exchange mechanisms.

The insurers must endeavor to achieve true portability and provide cover for wellness services, OPD treatment, pre-existing diseases and senior citizens who need health insurance most. Health insurance industry looses Rs 700 crore (15 per cent of total claims) every year to fraudulent claims, which the society cannot afford to overlook. Health insurance fraud and abuse is defined as an act of omission or commission intended to gain dishonest or unlawful advantage by unfair means such as, concealing pre-existing disease or claiming inflated bills. This malpractice is hurting the industry as well as insured people since it increases the premium. Fraud can be mitigated by adopting a 3600 process improvement, medical audit, whistle blower policy, effective industry and regulatory intervention and strong legislation. Moral hazard is a matter of concern that poses a serious challenge to the growth of health insurance. This is a tendency by the insured persons to overuse healthcare services, for example, demanding tests not required on medical grounds (demand-side moral hazard), and providers’ propensity to provide more services than they would if the individual did not have health insurance (provider-induced moral hazards). This practice can be curbed by co-
insurance and co-payments. Adverse selection is another challenge wherein people with higher risk and possibility of excessive consumption of healthcare services buy insurance, thus increasing the premium rates for other pool members. This is a problem of asymmetric information that disturbs the operation of the insurance market, resulting in an inequitable transaction. Members with the low risk are likely to drop out. Insures counter adverse selection through medical underwriting and rate-making process.  

In view of the high OOP expenses and 3 per cent of population falling into below the poverty line each year due to health-related expenses, there is a need to reach out to bottom to pyramid through micro-insurance. This is possible to achieve by distributing low ticket health insurance products at a low administrative cost in rural areas. The NGOs and insurance companies need to reach out to this segment of society to achieve penetration of health insurance. Enact the long pending Insurance Amendment Bill, which seeks to raise FDI cap in the sector from 26 to 49 per cent, which would result in surge of global players and even more customized products targeting all sections of society. In the event of the minimum capital requirement of $ 22 million being reduced to $ 11 million, a number of standalone players would enter the market, as is the trend across the world for health insurance.  

12. Ibid,  
13. Ibid,
Health insurance faces various challenges that are Healthcare infrastructure indicators of India developed countries highlight the difference and areas for improvement. The difference between rural and urban India as also the inter-state comparison show the existence of differences across regions. The primary reason for low level of healthcare infrastructure in India is low level of healthcare expenditure as a percentage of GDP. Health care contribution is play significant role in Indians economy the per capita total expenditure on health in India is low, Government’s health expenditure accounts for less than one-fourth of total health expenditure in India, and thus do not drive the private sector to increase its investment. Public healthcare spending is low; private sector has a major role to enhance the healthcare infrastructure in India. India is gaining the advantage of being the low cost destinations for healthcare services. However, the healthcare industry needs to prove that the low cost services offered by them are in real terms and the quality of services offered is comparable with developed nations. One of the ways to prove ourselves quality conscious is to get international accreditation of healthcare facilities. There are only few hospitals that have been acceptable by international agencies such as Joint Commission International. National accreditation system for healthcare establish by India, in very few hospitals have applied for accreditation. Such accreditation will be beneficial for both hospitals as well as patients. As the accreditation process of validation of hospitals looking their policies management health care services, main target is to satisfy the patients, involves rigorous checks on the processes and procedures employed by these hospitals, it helps the healthcare service providers in improving their overall efficiency and management of healthcare service. Patients benefit in terms of high quality of care and patient safety. They are serviced by credential medical staff and their rights are respected.
and protected. Accreditation results in helping continuously improve the overall services of the hospital in order to provide high quality care with least possible risks. Accreditation provides an objective system of empanelment by insurance and other third parties. It provides access to reliable and certified information on facilities, infrastructure and level of care with education on good practices to improve business operations. Patients are assured of quality in the procedures administered while availing healthcare services, through such accreditation, and thus are satisfied. Hence, Indian hospitals need to go for national as well as international accreditation to remain competitive. Penetration of health insurance in India is low. This way the challenges are to maintain accreditation in India’s hospital and provide better health services for patients. The organized sector provides healthcare insurance to only 10 percent of population. However, majority of them are covered under the health insurance. The penetration of health insurance in India is estimated at around 1 percent only. The main challenges are to increase penetration in health insurance sector. Major reasons for low penetration of health insurance include low level of innovation in health insurance products the policy maker and the Indian government they disappoint from this sector and do not make beneficiary policy for the customer, exclusions and administrative procedures governing the policies, and chances of co-variants risks, such as epidemics, which keep the premium high, lack of awareness about health care facilities. The need for greater insurance coverage may be viewed in the context of its potential to create demand for services, while spreading the risks through a pooling mechanism.\textsuperscript{14}

\footnotesize{\textsuperscript{14} http://www.kpmg.com/IN/en/IssuesAndInsights/ThoughtLeadership/Emrging_trends_in_healthcare.}
The insurance coverage may ease out the financial difficulties of patients and help the healthcare service providers with faster return on investment (with increase in demand for services) through lower payback period. Another challenge is that the foreign insurance companies are not willing to extend their coverage for treatments in low cost countries, such as India, as they have concerns about the quality of health services offered. The insurers are of the opinion that insurance coverage for treatments in low-cost countries could prove expensive if the treatment worsens the health conditions and the insurer is obliged to cover the costs of subsequent treatment, at home country. The insurers are also concerned with absence of malpractice law in a foreign jurisdiction in which case the patient will have no recourse to his / her healthcare expenses. Experiences suggest that low-cost solutions alone may not be enough to bring-in international tourists for undergoing healthcare treatments in India. The negative perceptions about India especially in rural areas, with regard to public sanitation, hygiene standards, prevalence of contagious diseases in India, quality of healthcare services provided in public sector hospitals, and wastage management practices adopted in India, counter the positive vibes created by the cost competitiveness of Indian healthcare system. Other infrastructure associated problems such as shortage of air linkages, power, water, and traffic congestions also affect the flow of healthcare Tourists towards India. Quality healthcare along with faster healthcare delivery is vital for the growth of any nation, as these are basic pillars of an effective healthcare system. The quality of healthcare in a country depends upon various factors are responsible such as access, effectiveness, safety and affordability.
While, India is considered as a low cost healthcare destination for the world, the cost of treatment in private hospitals are unaffordable to significant share of population considering the present state of public sector healthcare systems and low insurance (both social and commercial) penetration. India is also having an increasing burden of diseases, both communicable and infectious. While under-funding is the prime reason for the current state of in-country healthcare scenario, many experts have opined that poor healthcare management practices in the public healthcare delivery, especially at the primary level, are other important reasons for the low quality of healthcare delivery in India. It is important to recognize that international healthcare travelers would not like to take risk when communicable diseases like Dengue, Chikungunya are prevalent in a country. In fact, travel advisories are issued in case of prevalence of such diseases in any country.

It may be noted that even if hospitals are fully sterile, some infections are airborne. Thus, it is important to focus on in country healthcare to create positive perceptions about India as a safe healthcare destination. Organ transplantation is a revolution in the medical history as it has helped in saving the lives of those who would have died otherwise. Kidney, Liver, heart, lung, pancreas, small bowel are some of the organs that can be donated for an organ transplant. The Human Organs Transplant Act, 1994 has laid down various regulations that have to be followed while conducting the organ transplantation in India. According to the Act, any unrelated donor has to file an affidavit in the court of magistrate stating that the organ is being donated out of affection. The Authorization Committee, setup for the purpose of approval of organ transplantation with the organ of a non-related donor, ensures that the required documents are complete in all respects before the transplantation. The Act does not permit foreigner availing organs from a
local donor. With the booming economic growth, the demand for hotel accommodation in India is increasing. There are about 1.2 million hotel rooms in the country, of which approximately 80,000 are in star category hotels. The availability of hotel rooms is considered to be lower as compared to other countries. In addition, the cost of accommodation and dual tariff system are also hindrances to international travelers visiting India. There are debates about whether inadequate malpractices law in India serves as a deterrent or facilitator for flow of healthcare tourism in India. Experts are of the opinion that the present flow of healthcare tourism to India is principally the non-insured population abroad. It is also opined that medical malpractice insurance is a common reason for increase in cost of medical treatment, increase in waitlist, delay in procedures / treatment, and movement of professionals to other regions. Assuming that these two opinions are facts, the inadequate malpractices law in India has facilitated the flow of healthcare tourists to India.

However, it may be noted that the developed countries are working towards easier mobility of patients to other countries with payment coverage under the social healthcare systems as also the private insurers are interested in extending the coverage of healthcare expenditure incurred in other countries. When such an opportunity arise, the national governments, as also the private insurers, would look for low cost destinations that have better malpractices law in place. A better malpractice law regime provides recourse to the patients who develop complications or side effects after they reach the homeland. It may be mentioned that, recently, the United Steel Workers’ Union, one of the largest industrial workers associations in USA, has lodged a complaint in the Senate and House Committee to arrest the flow of healthcare tourists from USA to other countries, especially in view of absence of liability
insurance and appropriate recourse in case of medical negligence. India has also seen the growth in number of Spas in the last few years, which has increased the awareness among Indians about these traditional therapies. The growth in Spas in India is also luring the travelers to visit some non-visited corners of India. This has however led to competition with Indian traditional healthcare systems, in the domestic as well as in the international scenario. The Ayurvedic massage centers have been attracting a lot of western tourists to the country; however, the non-intensive regulatory framework has allegedly brought-in a flood of quacks into the industry. Growth of such quacks may kill the industry as untrained newcomers may cause more harm than good. Kerala, the most enthusiastic promoter of Ayurveda has been seeing hundreds of practitioners who have been taking advantage of the growing popularity of the ancient healing medicine and almost every big hotel boasts of Spa or Ayurvedic treatments.

On the one hand, low awareness and lack of understanding of product features, in addition to perceived apprehension in claims procedures and settlement, intimidates consumers from buying a health cover.

On the other hand, health insurance providers are challenged by the high claims ratio and insufficient or inaccurate data on consumer profile and disease patterns which is proving to be a constraint for product pricing and the development of new products.

The Insurance Regulatory and Development Authority (Irda) could possibly support the growth of health insurance with radical reforms such as the benefit of a subsidized universal health cover which will, in turn, reduce individuals' out-of pocket expenditure. The de-tariffing policy in the general insurance market has so far failed to elicit interest in making health insurance
attractive to the larger population. Inadequate product innovation and design is at the heart of this predicament. The portfolio of Indian health insurers still relies on standard products and indemnity-based annual contracts, at best providing variety through add-ons to traditional products.\textsuperscript{15}

A specific health policy is the basic pre-requisite for health planning in the India. A health policy should capture a holistic view of the state’s health, identify requirements and priorities, set up objectives and ensure optimal utilization of the allocated resources, given the capacity and constraints of the health system. It should result in a qualitative improvement in health services for the people in general and vulnerable groups-weaker sections, women and children- in particular. It requires several things. Firstly, it requires a proper health management information system which is the back bone for immediate access to information on different health indicators such as birth rate, death rate, neo-natal, peri-natal, infant and child mortality rates, method-wise contraceptive prevalence rate, disease patterns etc. at the district level and state level. New information technology can play a vital role in this regard. As the existing numbers of medical institutions in the state are insufficient to meet the health needs of the people, the government must enhance the health care facilities by establishing more medical institutions. Besides, efforts must be made to bridge the rural-urban gap in the availability of health services by having an equitable distribution of health services in rural and urban areas.

\textsuperscript{15} Sanjay Tungait “Innovation key to health insurance growth in India” Dec 15, 2010, 05.25am IST.
The existing health care facilities must be optimally utilized, vacant positions in the health institutions must be filled and absenteeism of doctors must be checked. These measures could prove to be of great help in improving the health scenario in the state. Most health institutions, particularly the rural ones, continue to focus excessively on immunization and family planning activities, ignoring the curative aspects. Health policy should give due care to the curative aspects along with the preventive aspects. Some of the suggestions for improving curative services pertain to easy, queue-less accessibility, service-availability for longer duration, clean premises, provision of medicines, diagnostic services under one roof on no-profit no-loss basis with appropriate subsidies for economically weaker sections. The policy should ensure regulation of both the public and private sector. At present, the state government is not even aware about the exact number of private clinics/hospitals/nursing homes and practitioners working in the state. While mandatory registration, service monitoring, fees regulation and rating are must for private health sector facilities, rationalization of postings, strict guidelines for deputations and priority settings in rural postings are must for public sector. No aspect of planning health services appear to be more important than the consideration of finance. The lack of financial resources because of poor allocations has often proved to be a major obstacle in the execution of health programmes. The government must allocate much higher levels of resources for the health sector. There is a say need to enhance public investment in health sector and health investment planning must be biased towards under-privileged areas.

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and groups. Further, rising costs of treatment in both the public and private sector, warrant a viable health insurance policy. Health policy should make efforts to provide diagnostic equipments at all referral hospitals from primary health centers (PHCs) onwards. In order to meet the financial limitations, such services may be outsourced to the private sector at government approved rates. This will promote public-private partnership; smash the nexus between doctors at public health facilities and owners of diagnostic centre’s and would result in stoppage of various malpractices. The disease patterns have changed over the years. The growing incidence of life-style diseases such as cardio-vascular diseases, diabetes, gastroenteritis, urology and newly emerging diseases such as cancer, HIV/AIDS, dengue and bird flu are posing new challenges for the India.

The policy should examine the feasibility of setting up special clinics at the district hospitals to deal with some of these problems. The health policy should also consider suitable nutritional awareness programme, initially at the school and Anganwadi level. Rising number of suicides in the state signify need for more mental health specialists too. health policy also needs to spell out area-wise prevalence of tropical and other diseases, ensure optimal utilization of health manpower and resources, enhance availability of primary health care/ paramedical staff, set out strategies to cope with rising pressure on tertiary health care institutions and bring about awareness for a better quality of health care comprising environment and occupational health, adequate availability of drinking water, hygienic living conditions, nutritious food, removal of drug addiction and other health hazards.

17.http://shodhganga.inflibnet.ac.in:8080/jspui/bitstream/10603/4259/16/16_chapter%208.pdf
It is a well recognized fact that the system of public delivery of health services in India today is in crisis. The public health care system is inadequate in quality as well as in quantity. India’s economic growth is bringing with it an expected “health transition”, in terms of shifting demographics, socio-economic transformations and changes in disease patterns- with increasing degenerative and lifestyle diseases and altered health care behavior. The growing demand for the quality health care and the absence of matching delivery mechanisms pose a great challenge. Recent analyses show that high absenteeism, low quality in clinical care, low satisfaction levels of quality care and rampant corruption plague the system. This has led to mistrust of the system, rapid increase in use of the private sector and attendant problems, high out of pocket expenditure that take a serious toll on families and quality of care. A weak voice and low accountability between public sector employees and citizens in the health care sector is the key binding constraint to effective delivery.\textsuperscript{18}

Health care at its essential core is widely recognized to be a public good. Its demand and supply cannot therefore, be left to be regulated solely by the invisible hand of the market. Nor it can be established on the considerations of utility maximizing conduct alone. In influencing the choices that make for better health and lowered financial burden of ill-health, the society is typically faced with three key challenges. The first has to do with controlling the cost incurred in the provision of health interventions that it supports- be it care, health care regulation, or provision of insurance-given that resources are limited and face competing demands for their use.

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\textsuperscript{18} Ibid,
The second is to achieve an equitable distribution of the financial burden of ill-health and morbidity. There is a direct consequence of the fact the societies are concerned not just about improvements in “average health” but also, especially, about the health and economic welfare of the socially and economically marginal groups in society.\textsuperscript{19} The third issue is to ensure the quality of medical care that is provided, because of its central importance to people who need care, and also because of its direct link to the cost-effectiveness of care provision.

\textbf{One of the key challenges facing: Healthcare}

With the World Health Organization’s 2000 World Health Report ranking India’s healthcare system at 112 out of 190 countries some key questions in his mind should be: How should the country transform its healthcare system? What are its current pain points? What could be achieved during his tenure?\textsuperscript{20} For those living in urban areas, healthcare is merely a political issue. They argue that the country faces bigger challenges such as economic development, infrastructure, jobs etc. While the opportunity to enter the market is very ripe, India still spends only around 4.2\% of its national GDP towards healthcare goods and services. Additionally, there are wide gaps between the rural and urban populations in its healthcare system which worsen the problem. A staggering 70\% of the population still lives in rural areas and has no or limited access to hospitals and clinics. Consequently, the rural population

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\textsuperscript{19} Ibid,

\textsuperscript{20} See more: http://forbesindia.com/blog/health/5-things-to-know-about-the-indias-healthcare-system/#ixzz3MWUJiUiO

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mostly relies on alternative medicine and government programme in rural health clinics. One such government programme is the National Urban Health Mission which pays individuals for healthcare premiums, in partnership with various local private partners, which have proven ineffective to date. In contrast, the urban centres have numerous private hospitals and clinics which provide quality healthcare. These centres have better doctors, access to preventive medicine, and quality clinics which are a result of better profitability for investors compared to the not-so-profitable rural areas. Besides the rural-urban divide, another key driver of India’s healthcare landscape is the high out-of-pocket expenditure (roughly 70%). This means that most Indian patients pay for their hospital visits and doctors’ appointments with straight up cash after care with no payment arrangements. According to the World Bank and National Commission’s report on Macroeconomics, only 5% of Indians are covered by health insurance policies. Such a low figure has resulted in a nascent health insurance market which is only available for the urban, middle and high income populations. The good news is that the penetration of the health insurance market has been increasing over the years; it has been one of the fastest-growing segments of business in India.21

Coming to the regulatory side, the Indian government plays an important role in running several safety net health insurance programmes for the high-risk population and actively regulates the private insurance markets. Currently there are a handful of such programmes including the Community Health Insurance programme for the population below poverty line and Life

21. See more: http://forbesindia.com/blog/health/5-things-to-know-about-the-indias-healthcare-system/#ixzz3MWUJiUiO
Insurance Company (LIC) policy for senior citizens. All these plans are monitored and controlled by the government-run General Insurance Corporation, which is designed for people to pay upfront cash and then get reimbursed by filing a claim. There are additional plans offered to government employees, and a handful of private companies sell private health insurance to the public. India faces a growing need to fix its basic health concerns in the areas of HIV, malaria, tuberculosis, and diarrhoea. Additionally, children under five are born underweight and roughly 7% of them die before their fifth birthday. Sadly, only a small percentage of the population has access to quality sanitation, which further exacerbates some key concerns above. For primary healthcare, the Indian government spends only about 30% of the country’s total healthcare budget the need for skilled medical graduates continues to grow, especially in rural areas which fail to attract new graduates because of financial reasons. A sizeable percentage of the graduates also go abroad to pursue higher studies and employment. According to the Indian Brand Equity Foundation (IBEF), India is the third-largest exporter of pharmaceutical products in terms of volume. Around 80% of the market is composed of generic low-cost drugs which seem to be the major driver of this industry. The increase in the ageing population, rising incomes of the middle class, and the development of primary care facilities are expected to shape the pharmaceutical industry in future.\(^{22}\)

The government has already taken some liberal measures by allowing foreign direct investment in this area which has been a key driving force behind the growth of Indian pharma. The medical devices sector is the smallest

\(^{22}\) See more: http://forbesindia.com/blog/health/5-things-to-know-about-the-indias-healthcare-system/#ixzz3MWUJiUiO
piece of India’s healthcare pie. However, it is one of the fastest-growing sectors in the country like the health insurance marketplace. Till date, the industry has faced a number of regulatory challenges which has prevented its growth and development. Recently, the government has been positive on clearing regulatory hurdles related to the import-export of medical devices, and has set a few standards around clinical trials.\(^{23}\)

In India healthcare has been a neglected area by the government. India has spent little in health care. The cases for each disease have reduced significantly over a number of years but still even after so much technological development the diseases continue to exist. Also the number of cases for AIDS and cancer has emerged as a major concern for health authorities. To cope up with both the old and the new challenges the need is to get a sound infrastructure and making sure that it has been implemented to perfection. Infrastructure has been described as the economic arteries and veins. Roads, ports, railways, airports, power lines, pipes and wires that enable people, goods, commodities, water, energy and information to move about efficiently. Increasing, infrastructure is regarded as a crucial source of economic competitiveness. One can easily differentiate the infrastructure used at urban level and rural level. Fig (1) gives a detailed diagrammatic display of the health structure defined in India. As it is visible from the figure the infrastructure developed in India is very complex and very well made but the problem has been the implementation of the same.\(^{24}\)

\(^{23}\) Ibid,

\(^{24}\) http://indianresearchjournals.com/pdf/APJMMR/2012/October/5.pdf
The government has achieved success in implementation of the infrastructure in the urban areas but it failed in the rural areas where the 65% of India's population live. The major reason for success of the model in urban areas has been its simplicity and industrial development. On the other hand the rural area faces with a complex 4 level health model which includes tainted dias to community health centers and the major drawback for the implementation has been the diversity of rural sector. To cope up with the difficulty the government started the system of the Village Health Guides that were responsible to train one person for safer health care of the village but with a small salary and corruption in the Indian administrative system it wasn't a very attractive job. The other health care system has worked but still all of them have their drawbacks. The neglecting of rural healthcare system is largely due to lack of specialist doctors in the rural sector. Even the local villagers who study medicine prefer to work in the city rather than going back and working in their own village. The need is to establish much more achievable and a simple health system which can ensure good healthcare of the villagers. The need is to breakdown the current rural health system in place of having tainted dias and primary health care system which calls for training of the rural people for the treatment the focus should shift to the young graduates from the medical school. The whole system should be cracked down to 2-step system and it should be divided according to the population of the villages. The villages where population is between 5,000 to 10,000. The establishment of small clinics is a must, which can take care of small diseases and help the women during their pregnancy months. The focus should also be diseases like malaria, leprosy etc.

25. Ibid,
These clinics can organize camps in different small villages. The next type of organizations should be small hospitals, which includes population above 10,000 people. These are specialist hospitals where more complex diseases can be cured and where villagers can be admitted. There should be a specialist visiting from the city to take care of the more complicated cases and performing complicated operations. But the need is also to get the doctors and paying them good salary. To make young medical school

26. Ibid,
graduates is also a difficult task in itself. The need is also to improve the participation of the private sector in the rural areas, which can attract new blood? One of the biggest challenges of these small hospitals would be to take off the load of the district and the apex hospitals, which usually run out of beds for the patients. The small hospitals should be able to load off the work of the district hospitals by 30%. Since there were no data available expenditure in urban and rural areas separately it becomes very difficult to do a comparative study. For the funding for healthcare programs should also increase in the rural sector. But most of this money goes into urban areas and only a small amount is used by the rural areas. Apart from implementation the distribution also plays a major factor in development of a healthcare system and especially in a country like India where the difference between rural and urban sector is too much. The current doctor population ratio is 1:1800. Consider the contrast with the Bhore Committee recommendation of 15% committed to health from the revenue expenditure budget, against the WHO, which recommended 5% of GDP for health. The current annual per capita public health expenditure is no more than Rs. 160 and a recent World Bank review showed that over all primary health services account for 58% of public expenditure mostly but on salaries, and the secondary/tertiary sector for about 38%, perhaps the greater part going to tertiary sector, including government funded medical education. Public health spending accounts for 25% of aggregate expenditure, the balance being out of pocket expenditure incurred by patients to private practitioners of various hues. But the current situation has somewhat changed 17 per cent of all health expenditure in India is borne by the government, the rest being borne 27

27. Ibid,
privately by the people, making it one of the most highly privatized healthcare system of the world.

Expenditure budgets show that capital expenditure in the health budgets of the above data calls for greater participation of the government in the health infrastructure. One cannot hope to depend on the private expenditure by the people to contribute 75% of the healthcare system. The need is to call for greater participation by the central government and the third-party insurance to close the balance.

The percentage of the Indian population that has been covered under health insurance is unfortunately very insignificant. Lack of awareness, casual approach is some of the reasons that have contributed to this. Though there is increase in number of health care insurance policies over past few years majority of the population remains without any coverage. Growing size of middle class population in India that spends on healthcare has led to the possibility of emergence of health insurance market. Hence this is another area where there are opportunities for FDI.

There are external and domestic factors, which challenging foreign investment, especially foreign direct investment in India’s hospital segment. Suneeta Reddy, Director, Finance, Apollo Hospitals Enterprise Ltd, Chennai says “While there are clearly many drivers to foreign investment in hospitals in India, there are external as well as domestic constraints, which explain the limited presence of foreign investment in India’s hospital segment.” One of the external factors, which were noted, is that notwithstanding trends towards privatization in healthcare in major developed countries, this is a sector that is undergoing reform and internal problems in those economies. In many countries, the number of private players who can establish hospitals overseas is limited. Hence, the potential number of overseas institutions that can invest
in emerging markets may be rather limited. A second factor that was commonly noted was that the hospital business requires localized and in-depth knowledge of the host country’s market and thus entry as an independent overseas institution is very difficult. Joint ventures may be a better way of entering a foreign market when setting up hospitals. But there are problems in maintaining partnerships, as there are issues of financial control and differences in expectations and management styles.

A third fact is that foreign investors would consider many competing destinations and would tend to go to markets which they are more familiar with and where there is clarity about policies not only regarding FDI but also regarding the healthcare sector overall. The Indian government does not have a clear roadmap for the healthcare sector, has not considered it as a core sector, and is perceived to be non transparent in terms of its regulatory environment and corrupt and inefficient in its procedures for establishing business, all of which do deter foreign investors A quote from one foreign health sector expert sums up the perception of India as an investment destination. Investors can have two roles. There are those who want to invest in physical infrastructure and others who see this as a profitable development opportunity and thus want certainty of returns. Thus minimization of risk and a regulatory environment that permits that is important. The regulatory environment must permit certainty of revenue flows to repay debt. The obvious and immediate attractiveness of India is its population, its GDP growth; its expanding market … The main factors that make India unattractive is the uncertainty of its regulatory environment,

issues of income flow, license and red tape, difficulties in developing business, and corruption. Investing in service industries is different from that in production industries…There are two reasons why investors are waiting and watching. One is infrastructure and the second is the bureaucracy for setting up.  