

## Special Article – Quality Improvement

# Is Quality in Healthcare, Sustainable in Developing Economies?

Gyani GJ\*

Director General, Association of Healthcare Providers, India

\*Corresponding author: Girdhar J Gyani, Director General, Association of Healthcare Providers, India

Received: December 28, 2015; Accepted: December 29, 2015; Published: December 31, 2015

## Abstract

The cost of healthcare is a big burden in most of developing countries like India where the out of pocket medical expenditure is too high. It is reported that millions of population get pushed below poverty line on account of un-expected healthcare expenditure. Major share of healthcare is provided by private sector. There is general perception that private sector is expensive. In spite of this, it's an irony that majority of private healthcare sector is still struggling to achieve profitable EBIDTA. By citing specific scenario from India, the paper makes the case, which will generally be the same for most of developing nations.

**Keywords:** Quality; Patient Safety; Sustainability; Hospital Operating Cost

## Introduction

India got independence in the year 1947. At that time the private sector share in delivery of healthcare was limited to 8% and that too largely by charitable hospitals. It was perceived by policy makers that healthcare needs of population would be met by public sector hospitals. As time went by, government could not keep pace with growing population and willy-nilly allowed entry of private sector. Today 80% of OPD services and 70% of IPD services are being met by the private healthcare sector. In terms of GDP, government share is little over 1% whereas by private sector it stands close to 4%. India is way behind the target of providing universal health coverage by way of making healthcare available, accessible, affordable and acceptable by year 2017. Indian healthcare therefore is largely supplier driven market. This should make healthcare sector as profitable market, but the trends show that the operational cost of the private hospital is too high to make healthcare business sustainable, more so if it is to comply with all quality and safety standards.

## Is Healthcare Really Expensive?

What is the real cost of delivering of healthcare? It has really not been done as it is indeed a complex procedure. There are so many variables and so many permutations and combinations that make costing difficult. Various efforts have been made to work out package costs for various procedures. Here again depending upon, whether the hospital is secondary care or tertiary care, whether it is single specialty or multi-specialty, whether hospital is located in tier-I, II or III city, the package costs will be different. Some of the insurance companies have tried to come out with differential packages based on some of above considerations, but these have not met with the expectations from consumers on one hand and providers on the other. In case of some of the government health insurance schemes, the costing of various procedures has been fixed on the basis of L1 quote from the tenders invited from private hospitals. This method can most likely result into irrational and illogical pricing for many procedures. For example a 50-beds nursing home will quote much lower price for a particular procedure due to low overheads as compared to 300-beds super-specialty hospital and such a price will just not be viable for the later.

Leaving aside the arithmetic of costing, there is general perception that healthcare was expensive, for the simple reasons that common man does not budget for it. Sickness is never anticipated and is considered as rare (not likely to happen) event. On the other hand common man even at the lower rung of society makes provision for educating children, for transport etc. Under the circumstances, the cost of treatment for major ailments appears deceptively high. Same is the case even with the middle level income groups. Other reason for such a perception comes as government run community health centers or hospitals extend free healthcare services. We do not realize that FREE healthcare is actually not FREE. It comes from the tax payer's money. The fact that we do not keep account for the actual cost of delivery of healthcare by government run institute, the perception that private healthcare was expensive, keeps growing.

## Analyzing the Operational Healthcare Cost

The major cost heads factored for computing the operational cost of a procedure are generally taken based on the direct cost comprising of fee to the doctor and cost of drugs and other medical consumables. There are other innumerable indirect costs i.e. salary for allied healthcare workers including nursing staff, lease of land/rent, administrative cost, power and utilities, legal and regulatory compliance and the cost incurred on marketing and advertisement of services. The proportions of these costs vary widely depending upon the category of healthcare institute. As broad thumb rule the costs percentage of net revenue for a typical multidisciplinary private hospital are estimated as follows;

- Doctor's salary - 18-22%
- Salaries for allied healthcare workers including nursing staff- 23-30%
- Drugs and Medical consumable- 28-32 %
- Administrative Cost -18- 20 %
- Cost of marketing and advertisement- 5 -7 %
- Power and Utilities- 4- 5 %
- Repair and maintenance- 2-3 %

- Quality and Regulatory compliances- 2- 3%

Based on the above, it is observed that about 70% of the total operational expenditure in private hospitals comes out to be on the salaries and medical consumables. This is largely because, private hospitals to keep edge, crave for consultants with super-specialization and beyond. Their fee is much higher. Private hospitals also have higher staff to patient ratios. These hospitals cater to varying demands from different categories of patients, without too much of waiting time. For example a government hospital may have nursing staff per bed ratio as low as 0.25; whereas a typical private hospital will have 0.60-0.75 and it can go as high as 1.25 in case hospital is tertiary care and is accredited under national/international standards. All this will cause huge difference in operating costs for private hospitals and more so for big hospitals.

Capital costs are other reason for differentials in overall costing of private hospitals as compared with the public hospitals. Medical equipment and consumables are getting expensive as they are generally imported in developing countries with hefty taxes in the range of 11-22% by way of excise, custom duty, sales taxes, entry taxes etc. Private hospitals will like to keep pace with current technology and they need to keep provision for their replacement. Land is other major differential as it can cost as much as 30-50% of total project cost. Public hospitals do not need to account for land as they are allotted with government land at no cost. Private hospitals incur anything between 20-27% by way of taxes while constructing of hospital building. Private hospitals are charged the electricity tariff at the commercial rates at par with what was chargeable for cinema halls or shopping malls. No wonder, the operational cost of private sector hospital will be much higher than its counterpart in public sector.

## Operational Cost; Private V/S Public

Going by the above, it sounds logical that the operational cost in absolute terms will be higher in case of private sector hospital. As mentioned above, we do not actually work out the cost of delivery of medical care in a public hospital. Patient only knows that there was no cost at public hospital and substantially high cost at private hospital. The fact that a common man does not budget for healthcare needs, the cost differential from ZERO cost in public hospital to a substantially high sum at private hospital, creates huge negative perception that he/she was commercially being exploited by the private sector hospital. In order to make the perception realistic, it is necessary that we make the consumers aware about the cost of healthcare, be it private or public. As explained above, it is difficult and complex to compute the cost of delivering a medical procedure under different settings. No sincere effort either has been made to compute such a costing. It has therefore not been possible to draw comparison of costing between private and public sector hospitals.

As an alternate approach, it will be interesting to compare the total operational costs per unit BED occupancy between range of hospitals from private and public sector. To begin with we may take into account the total annual operational budget for range of hospitals

from both sectors and divide it with average number of occupied BEDS. This will serve two objectives; one we will know how the two sectors compare and two, it will show to common man that there was real cost of healthcare delivery from public sector hospital. This will help to a large extent to convey to stake holders that healthcare does cost and was not FREE. In fact it will be worthwhile that even while delivering free service, let public hospitals raise the invoice to individual patient and show the whole cost subsidized in the same invoice. This will have dramatic effect on society; one it will know how much government was incurring cost on individual patient and more importantly it will reduce the negative perception that private sector was exploiting. With such an exercise, the patient will also know the difference between the costing of two sectors and depending on the need, the patient would be better prepared to pay that extra while going for private sector.

Table-I below, shows the actual operational cost incurred in case of some of the public and private hospitals. This has been ascertained after gathering the data from sample of hospitals and for sake of easy assimilation the cost has been shown per bed per day.

For example a public hospital spends on the average between Rs. 5000 to Rs. 7000 on an IPD patient in general (secondary care) hospital. The same amount in a tertiary care works out to be between Rs. 9000 to Rs. 17000/. When we compare the same for private sector, the cost per bed per day can run from Rs. 15000 to as high as Rs. 25000/, for tertiary care hospital depending upon the infrastructure and level of specialization offered. It may also be noted that tertiary hospitals taken in the present exercise are accredited to national/international standards, which is not the case for public sector hospitals (Table 1).

## Sustenance of Private Hospital

Going by the above, it is evident that establishing and operating of private sector has too many challenges. More and more population is getting aware about needs of better healthcare. Even people in low income groups were venturing to nearby private nursing homes and were getting prepared to spend higher cost instead of going to nearby free public facility. These are good signs for growth of private health sector. Healthcare was also fast becoming election agenda and more and more government health insurance schemes were being launched for certain percentage of society. These were largely cashless schemes where patients can visit to hospitals of their choice and get treatment for various secondary/tertiary levels of ailments. As per estimate made by World Bank, nearly 50% of Indian populations were being covered under some kind of insurance. But the flip side is that scheme owners (government) were fixing the package rates for various medical procedures, unilaterally without involvement of healthcare providers. For want of resources the government will be constrained to keep the rates of procedures as low as possible. Some of these rates will be unviable for tertiary care/ super-specialist hospitals as compared to small nursing homes. With large majority of population getting covered either through government insurance or through private insurance, hospitals will be left with little option

**Table 1:** Hospital Operational Cost per day per bed (in INR).

Secondary Care Government Hospitals	Tertiary Care Government Hospitals	Tertiary Care Private Hospitals
5000-7000	9000-17000	15000-25000

but to accept patients at these un-viable rates. While hospitals may manage some degree of sustenance through cross subsidizing from cash paying patients, that may not continue for long and quality will become first casualty, what we call sustaining the business at the cost of quality and which means patient safety.

## Conclusion

Going by the above, it is evident that healthcare was fast becoming election agenda for the governments in developing nations. Healthcare as component of overall wellbeing is being seen as basic obligation to be met by the governments. In order to fulfill this, government needs substantial spending as percentage of GDP (9% is global average) on healthcare, which was not going to be easy due to the fact that developing nations have other priorities including education, environment, infrastructure (power, telecom) etc. Only way out is to incentivize private sector to invest in healthcare infrastructure so that government could spend only on buying healthcare and delivering to its populations. This again is easier said than done. For country like India, covering 1.2 billion of population is not going to be easy task. Governments with its limited resource would have to find innovative measures to make available the healthcare services to its populations. In most cases the governments will take easy route to cut down on reimbursement to private healthcare providers by fixing lowest possible package rates for various medical procedures. Such rates would be unviable for tertiary care hospitals and which also will have to adhere to standard treatment protocols. Most hospitals for want of sustenance would be forced to compromise on quality and patient safety. Studies have shown that even developed nations are reported to account for hundreds of thousands of medical errors and this can run into millions for developing nations. We need to seriously think

about this rather than pushing the subject beneath the carpet and in the process risk millions of lives of innocent populations. The solution may not be easy but the discussion above provides few takeaways as follows;

1-For want of resources, it would be wiser for governments to buy healthcare from private sector. Governments need to fix the rates of medical procedures on scientific basis, without which hospitals complying with safety protocols will not be able to sustain and we will be pushing hospitals in adopting unsafe practices, jeopardizing lives of patients. This should be the most important learning from the above discussion.

2-Governments may work out graded reimbursement plans for its populations. For example it may keep amount 'X' for certain category of population and reducing it as we move upwards towards affluence. Government may also introduce component of co-payment, which will make population more conscious and responsible of availing of healthcare services and at the same time reduce burden on government exchequer.

3-Government may plan compensation based on risk based categorization of hospitals i.e. compensation should be linked with clinical outcomes so as to promote culture of safety within the health systems of the country.

4-Public hospitals even while delivering FREE health services must account for cost and make it known to patient. This is necessary so that populations realize the value of government's contribution. This will also help populations to understand the rationale behind the cost of services charged by the private hospitals.