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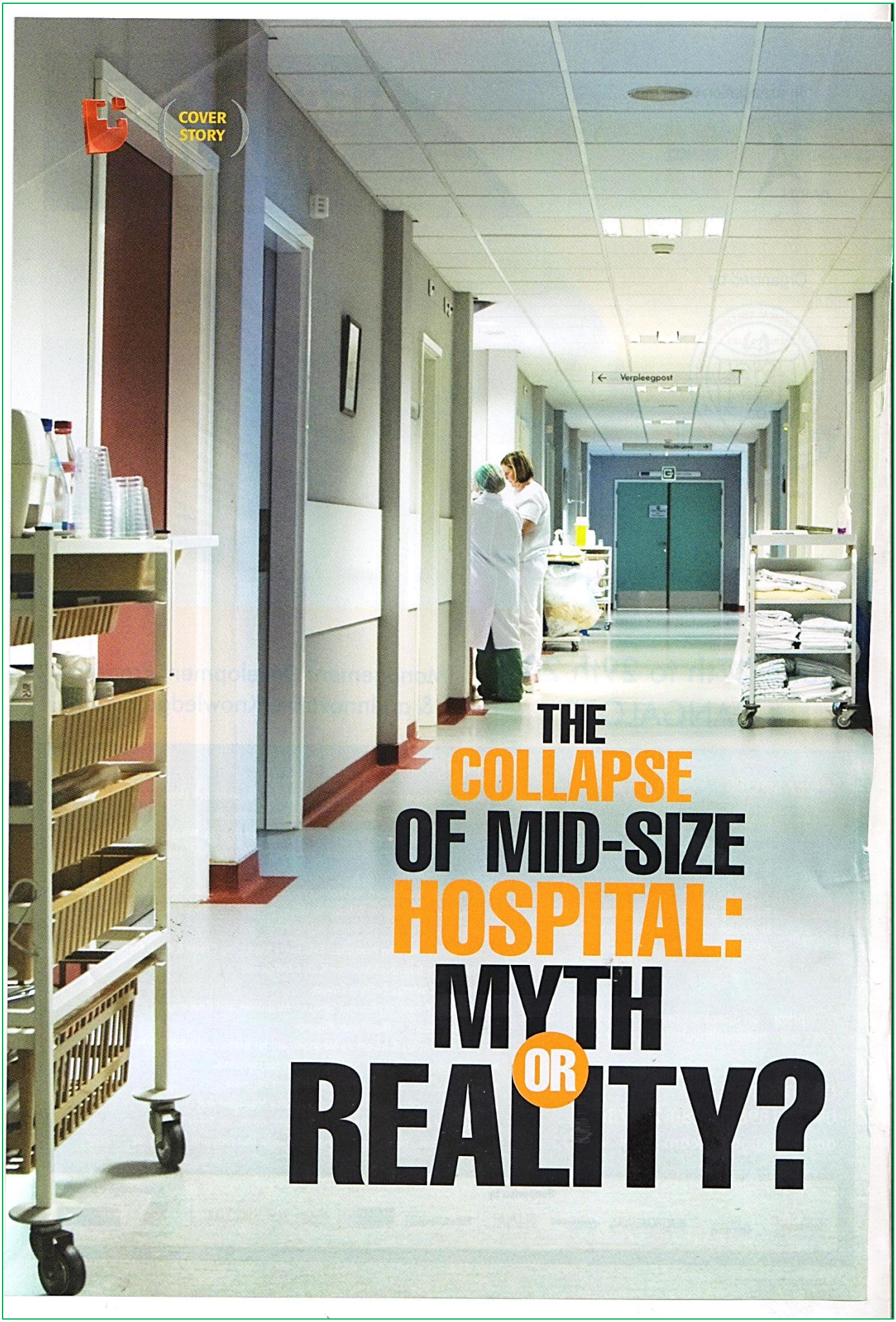
SCRAMBLE FOR SURVIVAL

The popularity of mid-sized hospitals, catering to people of mid and lower sections of society, seems to be declining rather quickly, forcing these hospitals to either shut down or find a way out

FACE TO FACE WITH DR U. KARUNAKARA, MÉDECINS SANS FRONTIÉRES



THE COLLAPSE OF MID-SIZE HOSPITAL: MYTH OR REALITY?

OWING TO A HOST OF REASONS, THE POPULARITY OF MID-SIZED HOSPITALS, CATERING TO PEOPLE OF MID AND LOWER SECTIONS OF SOCIETY, SEEMS TO BE DECLINING RATHER QUICKLY, FORCING THESE HOSPITALS TO EITHER SHUT DOWN OR FIND A WAY OUT

BY PALLAVI PAUL

There is a rapidly increasing need for improved health care facilities and advanced solutions in the field of medicine in our country. Despite the emerging demand for better healthcare, the paradox lies in the fact that about 30 per cent of small to mid-size hospitals are reportedly on the verge of collapse.

Regardless of the fact that these hospitals provide support to lower and middle class families across the country, especially in two and three tier towns, there seems to have been a significant shift in the clientele to corporate hospitals over the past few years. In recent years, large and corporate hospitals contributing around seven per cent of bed capacity are gaining popularity.

The mid-sized hospitals provide single specialty, multi-specialty and general medical services, and are set up and administered by charitable trusts, entrepreneur clinicians or a group of professionals of one mind and are of non-corporate nature. As a result, there is an urgent need to reduce operating costs.

According to experts, these small and mid-sized hospitals are plagued with a host of challenges, limiting their growth

> "There could be around 9,000 mid-sized hospitals in India out of which about 30 per cent are on the verge of closure due to severe sustainability challenges on account of decreasing footfalls and excess reliance on credit business"
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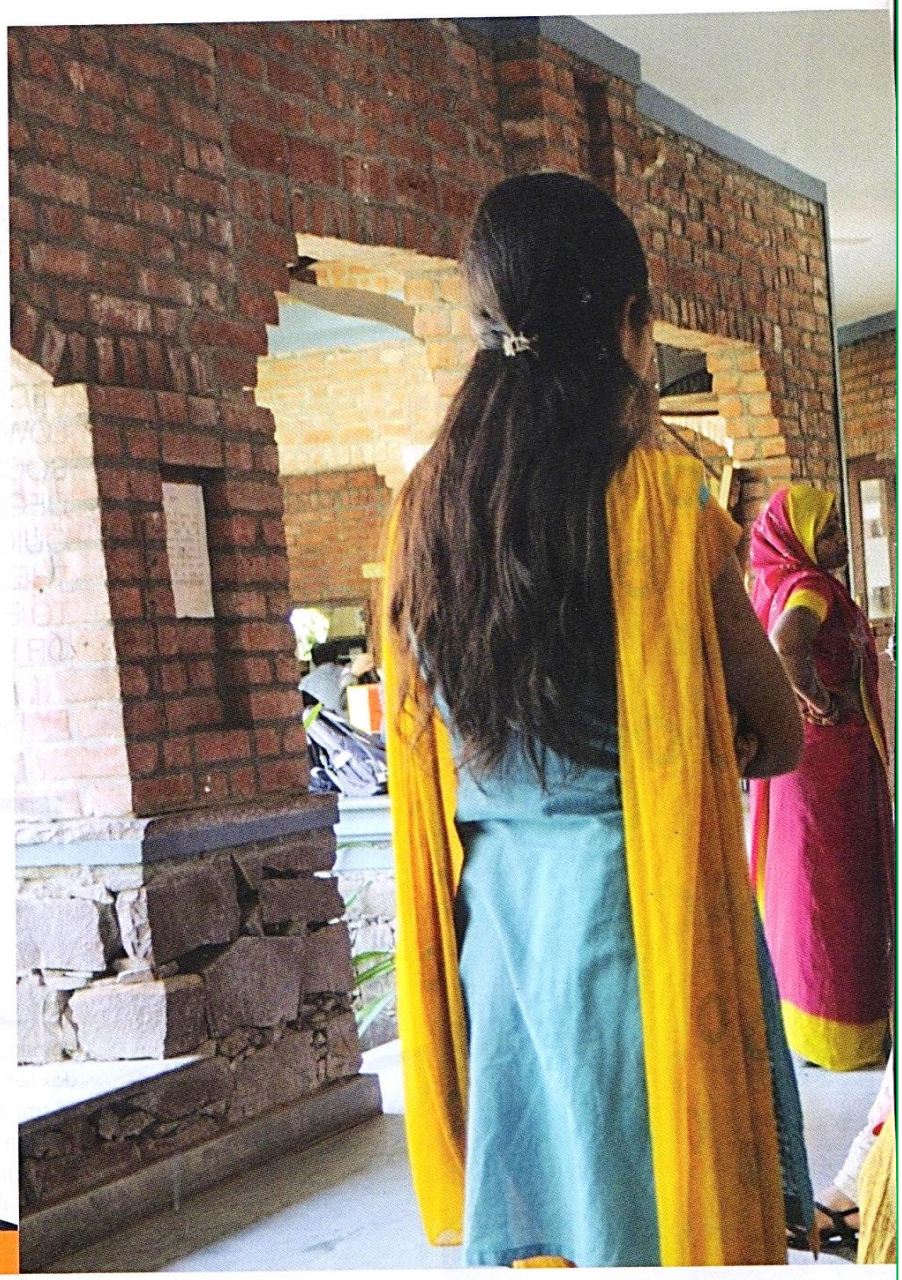
> ***—Ashwajit Singh,*** *MD, IPE Global, promoter of Imperia Health Pvt. Ltd.*



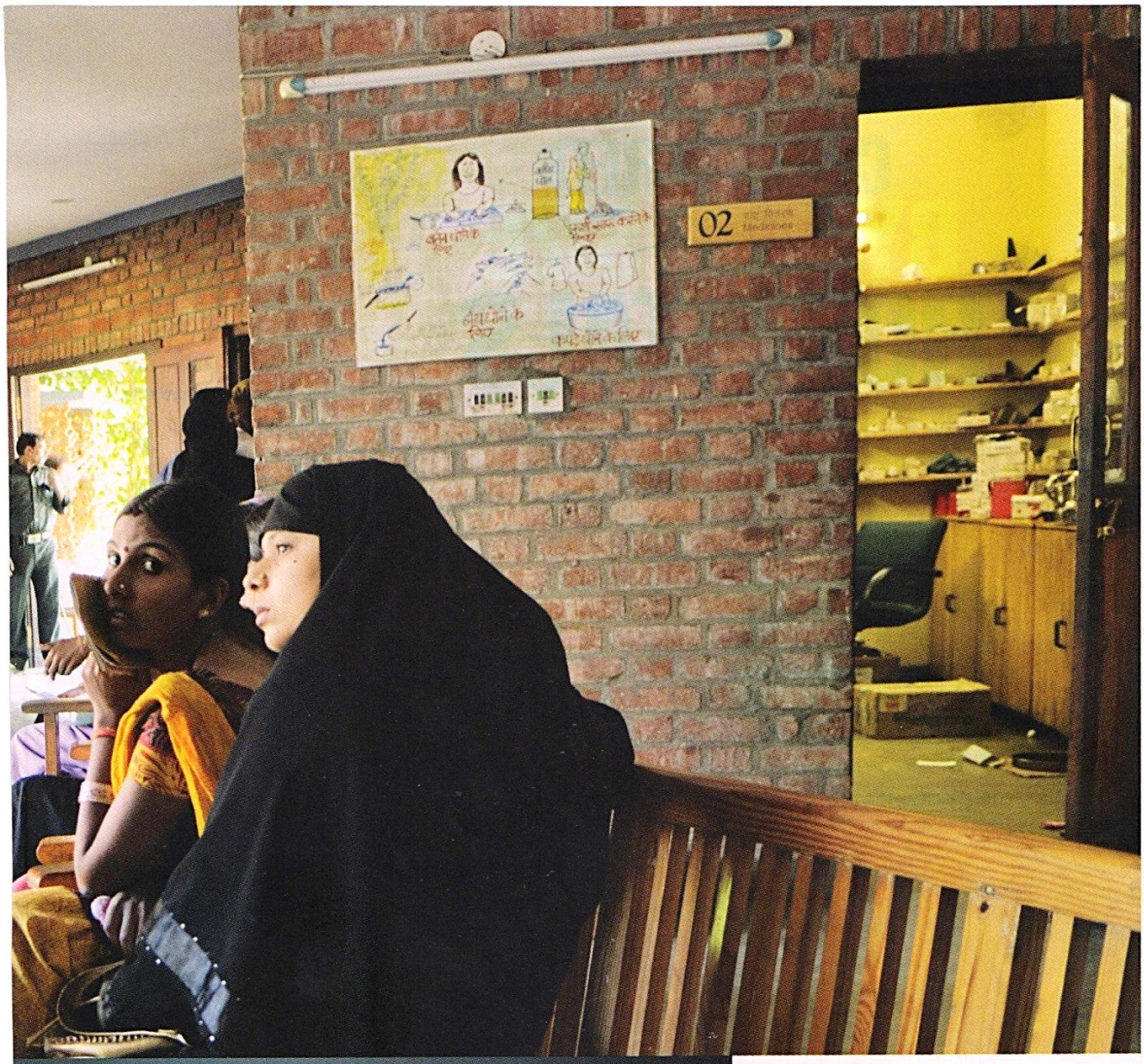
and popularity. Problems like lack of infrastructure, technology and space, lack of quality manpower across all levels, operational difficulties and insufficient funds have further led to their decline.

"The health system is growing at a very fast pace and mostly through private sector. Small Nursing homes are at one end of the spectrum and large corporate chains are at the other. Mid-size hospitals stand in the middle and some are in multi-specialty domain. Many are facing severe sustainability challenges on account of decreasing footfalls and excess reliance on credit business. There could be around 9,000 mid-sized hospitals in India out of which about 30 per cent are on the verge of closure. Some of them may be acquired by larger, corporate hospitals and may convert to tertiary care," says Ashwajit Singh, MD, IPE Global, promoter of Imperia Health Pvt. Ltd.

"The key reasons for this downtrend are acute operational issues faced by these hospitals due to weak systems, inability to expand their service capabilities, complex HR issues, low utilisation of staff, and so on," he adds.

A survey in the year 2009 indicated that at 1.2 million beds India only had 0.95 beds per thousand population against a global average of 2.9, indicating a significant need for better infrastructure. About 55 per cent of these beds are in the private sector, while the rest are in the public sector.

Large hospitals that have more than 200 beds make 18-20 per cent of these beds, midrange hospitals or secondary hospitals with 50 to 200 beds make 25 per cent,



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CHALLENGES COUNTERED BY MID-SIZE HOSPITALS

IN A 2012 REPORT NAMED HEALTHCARE INFRASTRUCTURE AND SERVICES FINANCING IN INDIA, OPERATION AND CHALLENGES, PRICEWATERHOUSECOOPERS CITED THE FOLLOWING AS CHALLENGES FOR PRIVATE MID-SIZED HOSPITALS

Affordability of care

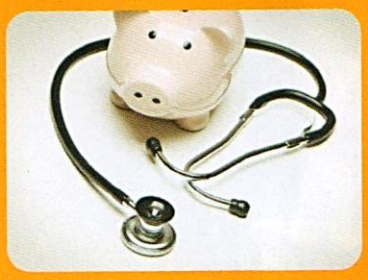
There are apprehensions in the mind of private service providers regarding the affordability for secondary and tertiary healthcare, as majority of patients earn a basic daily wage. The lack of sufficient public spending is substantially increasing the burden of private out-of-pocket expenditures on health. Moreover, the financial protection against medical expenditures is far from universal with only 10 per cent of the population having medical insurance. Out of that only a very small percentage of population is availing voluntary private for-profit health insurance scheme, while the remaining people are either covered by community based health insurance or mandatory employer health insurance schemes like ESIS or CGHS.

However, experience from other countries suggests that the entry of private firms into health insurance sector has to be properly regulated without which it can have adverse consequences for the cost of care, equity, consumer satisfaction, fraud and ethical standards.

Some of the regulatory areas that pose challenge to the growth and penetration of the private health insurance sector in India are non-negotiable conditions that are binding on consumer, rejection disputes due to minor technical reasons, clear documentation and demarcation between fair practice and unfair practice, knowledge and implications of pre-existing conditions and covering of risk for only that population segment who can afford to pay high premiums. Unregulated reimbursements of medical costs by the insurance companies push up the prices of private care leaving a large section of the population, who are uninsured, at a relatively disadvantageous position, having to pay more for the same private care.

Funding of healthcare projects

Healthcare projects are capital intensive and have at times slower returns, especially in smaller towns and rural areas. There are not many funding mechanisms available for these projects. This has been one of the biggest hurdles for this sector to grow and reach to masses. Mostly, the hospitals in tier-II towns and rural areas are funded by bank loans, which are at high interest rates of 13-14 per cent. It is very difficult to make such projects viable. This phenomenon is highly prevalent in eastern states and has been one of the reasons for slower growth of healthcare there. Many sovereign funds and social funds are interested in funding these kinds of project, but are not able to connect.



while smaller hospitals and nursing homes, with 50 or less beds, contribute the substantial 55 per cent. Therefore, a deficit in healthcare resources coupled with its skewed distribution has led to the emergence of several asset-light and scalable models of healthcare delivery.

Amit Mookim, partner, National Industry Head, Healthcare, KPMG, believes that the significant majority of such hospitals are not governed by set protocols or clinical guidelines, thereby, impacting operations and clinical outcomes.

"Rising costs in terms of rentals, consumables, utilities are other factors for the decline of such hospitals. There is also an inability to associate or tie up with good quality doctors, specialties and surgeons due to poor infrastructure and remuneration," he adds.

According to Mookim, other challenges include non-adherence to regulatory requirements in a large number of such facilities and increasing awareness amongst consumers and lack of insurance cover, leading to shift in consumer behaviour, hence impacting the choice of hospital.

In an earlier report Imperia Health had suggested that it hoped to revive nearly 20 ailing hospitals in the next one year by bringing them under its fold. It had mentioned a likely move towards managing government hospitals on a private partnership basis.

Another former report by Frost

Access to essential drugs and medicines

Drugs are one of the main cost drivers of the healthcare system. On the demand side, drugs and medicines form a substantial portion of the out-of-pocket spending on health by Indian households. In rural India, the

share of drugs in the total OOP is estimated to account for nearly 83 per cent, while in urban India, it is 77 per cent. The share of drugs in the total inpatient treatment in rural and urban India is around 56 per cent and 47 per cent, respectively. On the other hand, the component of drugs and medicines accounts for a mere 10 per cent of the overall budget of both the central and the state Governments.

At present, only 76 drugs, accounting for one-fourth of the total drug market in terms of value are price controlled. Finally drug retail margins are extremely high in the pharmaceutical market. This becomes evident when one compares the market price vis-à-vis the pooled procurement price of drugs. The state governments of Tamil Nadu, Delhi and Rajasthan have been pursuing a transparent and efficient public drug procurement policy.

This has resulted in substantial savings to the exchequer leaving them in a better position to buy more drugs within their limited budgets. Spurious or substandard drugs have been the hallmark of the Indian pharmaceutical market. Poor regulatory systems, due to inadequate and weak drug control infrastructure at the state and central levels is the major reason for the existence and sustenance of substandard drugs. Specifically, the problem lies in inadequate testing facilities, shortage of manpower, non-uniformity in enforcement, etc., with only some states and union territories having drug-testing facilities.

Operations of facilities

Prices of services in the private sector is influenced by the source of capital and interest rates and prices of other inputs such as labour, rental, technology, etc. However, the competitive edge is determined by three factors – experience of practising physicians, effective use of technology and proximity of service location for the intended customer-base, which also act as barriers to entry.

At times due to low bed occupancy at private hospitals, unqualified nurses and AYUSH doctors are appointed at far lower wages. Other practices used to remain economical and maintain sustainable profit margin are combining medical diagnosis and treatment with the sale of drugs and earning commissions from diagnostic labs for every referral.

Availability of healthcare staff

The key concerns expressed by the private healthcare providers for not making some of the Indian states (for example Bihar) as their preferred destination for setting up healthcare facilities are non-availability of medical, nursing and paramedical staff, scarcity of Nursing Schools and paramedical colleges, reluctance of qualified professionals to settle in those states, lack of urban amenities required to attract qualified staffs such as malls, multiplexes, etc. Inadequate budgets, limited avenues and incentives for the teaching faculty to undertake research or introduce innovative teaching methods, etc., have had a demoralising effect that creates a negative impact on the quality of education and commitment of the faculty.

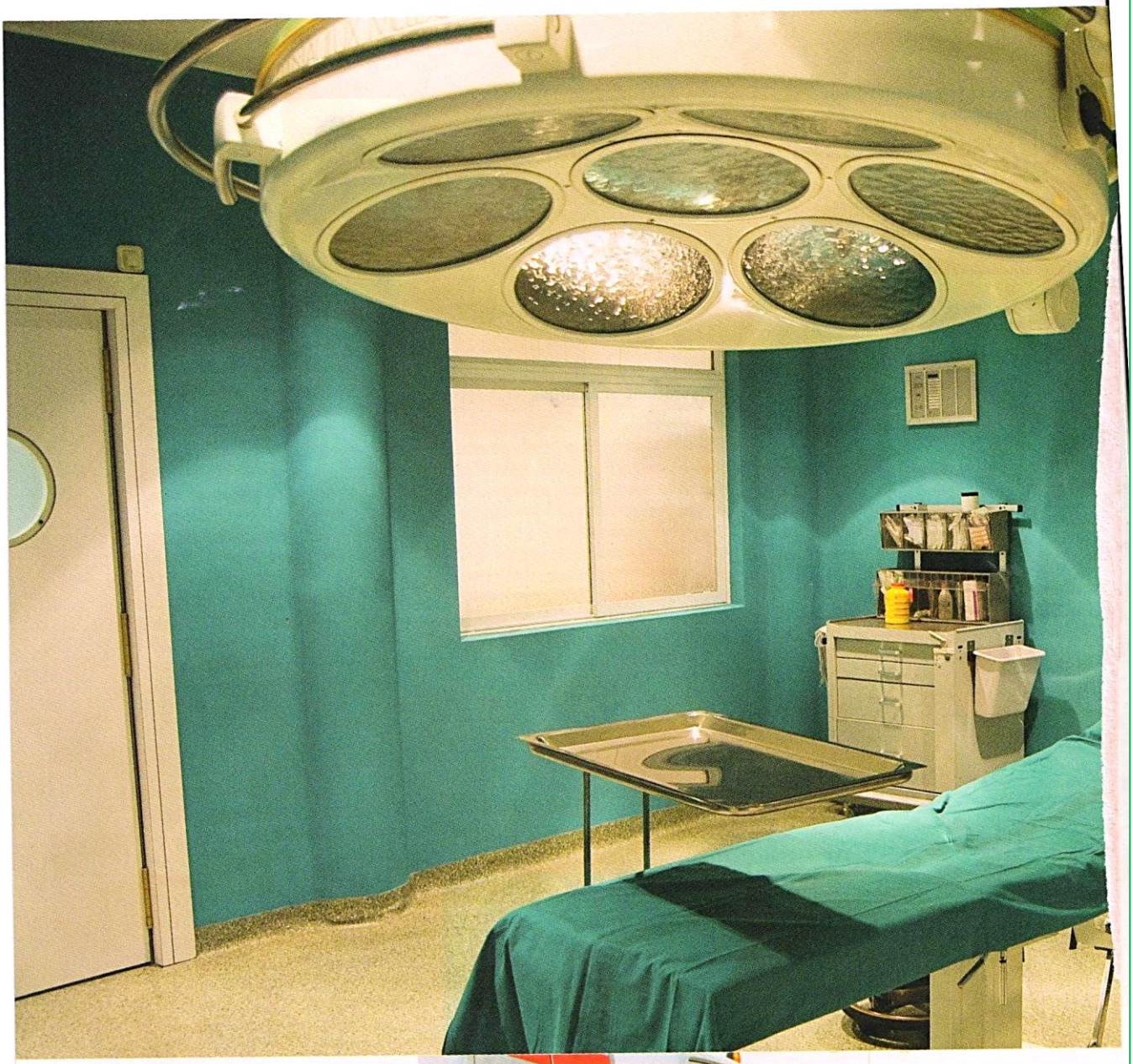
It is observed that there is a steady migration of skilled personnel from government to private and abroad, which could mean non-availability of quality care to the poor, who frequent government facilities. If the progressive erosion in quality is not arrested, it will affect India in a different way – while the best continue to go abroad or work in corporate hospitals that attend to the affluent sections of society, NRIs or foreign clientele, there is a danger of duality in quality and consequent inequity in care.

& Sullivan, a business consulting firm, highlighted that implementation of IT is the major challenge for the mid-size hospital sector, as they do not have a clear roadmap for IT in their hospitals, well defined budgetary distribution and availability of cost effective yet unmatched technology platforms to enable them to be an efficient, effective and affordable healthcare provider for the masses.

Other key challenges for IT at mid-size hospitals are training and implementation, purchase of correct software and guidance to purchase correct software, maintenance, software support service, staff support, vendor support and coordination.

"Mid-size hospitals should be appropriately positioned and their precise role in the health system clarified in order to help revive these facilities. They can be part of backward integration for super-specialty chains and may develop excellent packages for basic specialty work using best techniques," says Ashwajit Singh.

Mookim pointed out, in order to upgrade the level and quality of care provided in these hospitals, standardised operating procedures and protocols and adherence to regulations will have a positive impact on operations and clinical outcomes. Upgradation of infrastructure and technology and commensurate revenue sharing will help attract good doctors to offer treatment in these hospitals.



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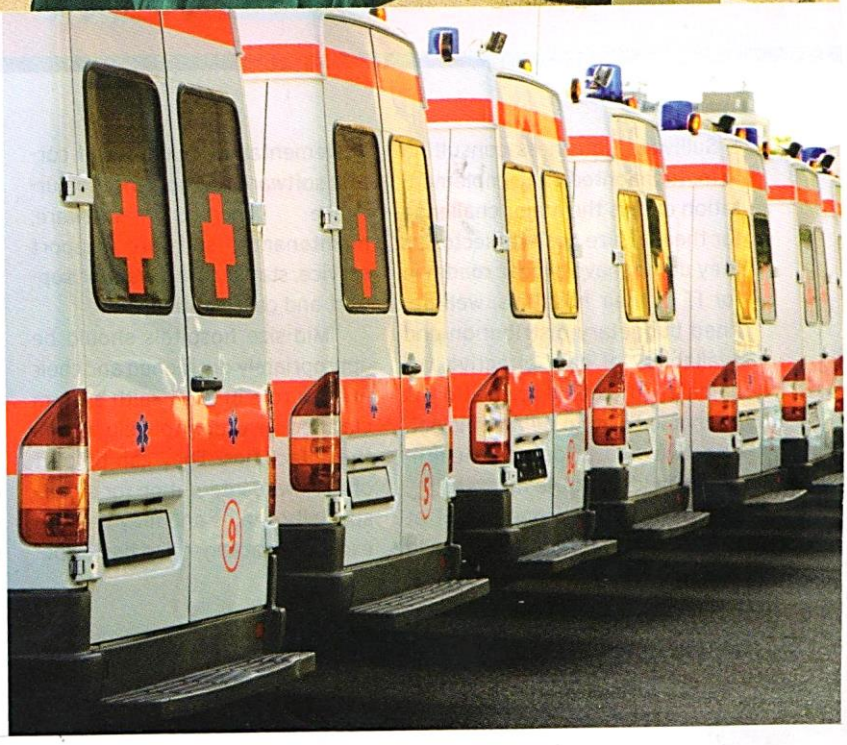

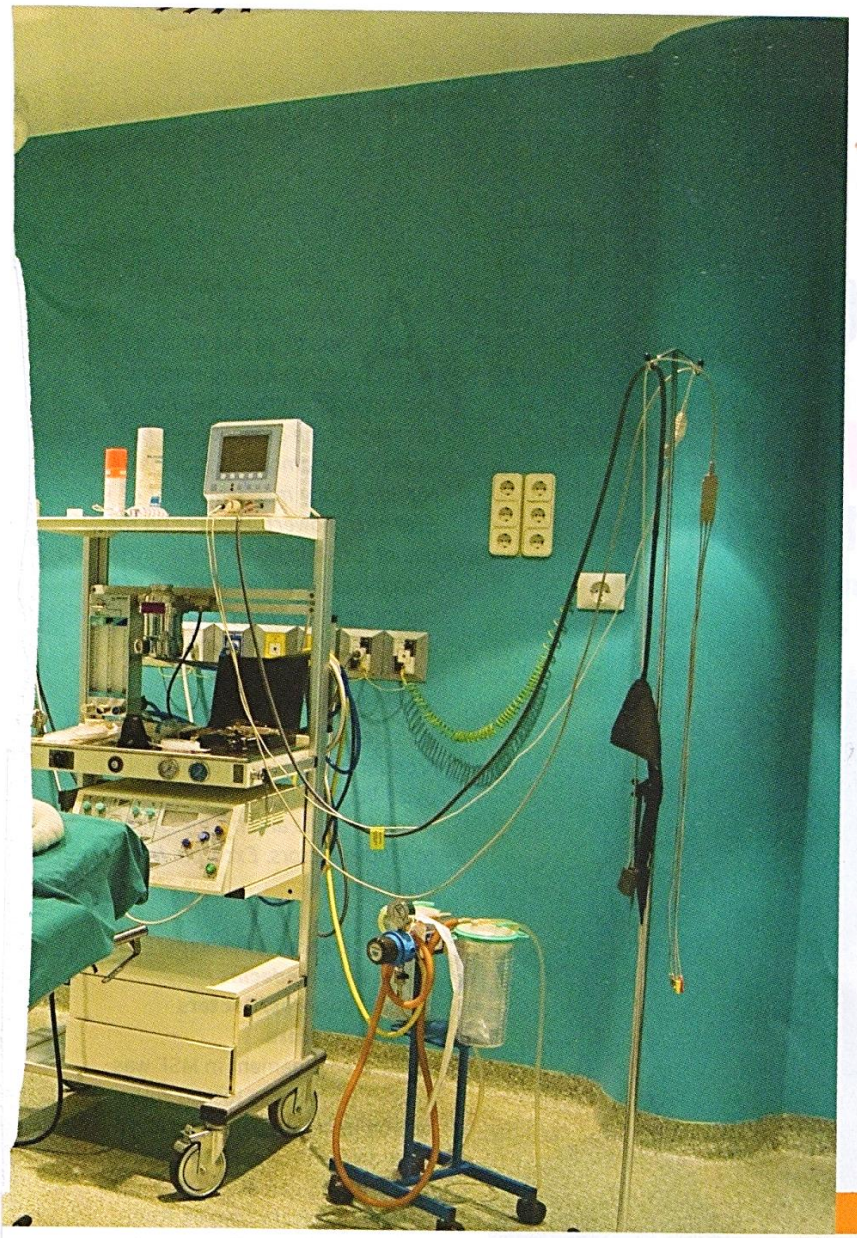

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Possible usage of cloud-based applications to maintain patient records and better training of staff – that will eventually impact operations and quality of care – may help make such hospitals eligible for insurance cover and hence attract more volumes.

Brand image in healthcare is of prime importance as it determines one's reputation in the industry, increases competitiveness and ensures success of a medical unit.

"Brand images are made through simple means. The hospital has to become patient-centric and understand that priorities of patients include promptness of service, care with concern and empathy, high-end latent clinical care, amenities and costs. When the first three are addressed, the brand image will build with time," said Singh.

Despite the many suggested challenges, Dr. Mahesh Inder Vir Singh, CEO, Saket City Hospital, believes mid-size hospitals have a bright future and are nowhere on the verge of collapse.

"Mid-size hospitals are usually driven by entrepreneurs, mainly-doctors, who might not acknowledge professional talent and so they may lack planning. Despite the fact that they don't stand a chance in comparison to corporate hospitals, they are doing fairly well regardless of the challenges and will continue to do so for the next 50 years or more. We cannot write them off since not everyone can seek medical treatment in corporate hospitals and a fair share of India's population depends on them. There is room for improvement but these hospitals are delivering," he explains. ▪