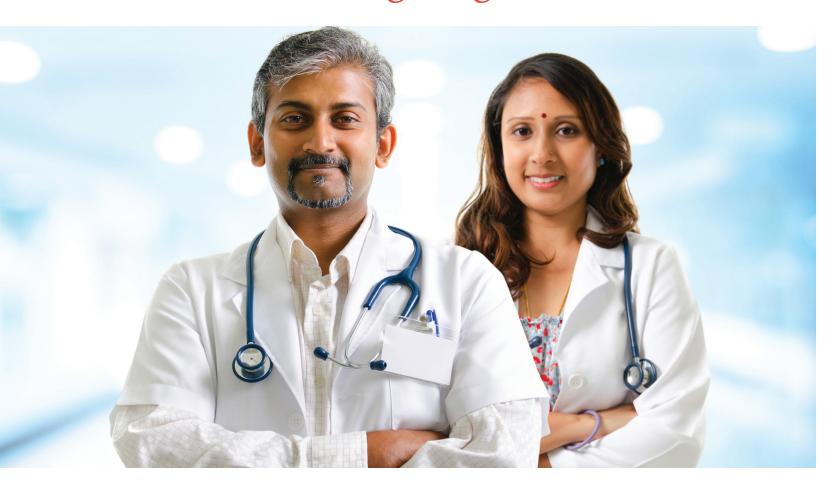


# Financing and Funding Indian Healthcare: Navigating the Turbulent Tide





#### Executive summary

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The cost of healthcare or, more appropriately, the cost a nation has to bear to provide healthcare to its citizens has been one of the most hotly debated issues globally. How one defines this paradigm is important: Is healthcare a right that citizens can demand from the state, or is the individual responsible for his/her own health? However, there is a general consensus that unless some form of universal health coverage care is available, the growth of the most robust economies can be derailed. The coverage should include access to preventive, promotive and curative care of sufficient quality to be effective while ensuring people do not suffer financial ruin.

One of the tectonic shifts in Indian healthcare has been the launch of 'Ayushman Bharat', which addresses both pillars of universal healthcare coverage—the role of primary care and financial access. Under the National Health Protection Scheme, the government plans to cover over 500 million population, making it one of the largest schemes on the planet. Traditionally, the public and private sectors have not worked together. International experience shows that the most efficient public healthcare systems use private capital and expertise to induce efficiency and innovation. The scheme gives a fresh impetus for both to work together towards achieving the nation's goal of achieving universal healthcare.

A host of factors—ranging from price control to regulatory overreach and safety of the caregivers in hospitals—have threatened to derail the robust growth of the sector. However, we see this as an opportunity to relook at financing and funding, the regulatory framework and reimbursement mechanisms to build a new healthcare ecosystem.

The 'New Indian Healthcare Eosystem' will redefine the healthcare delivery and products space with low-cost hospitals, speciality clinics, medical devices which cost a fraction of imported devices, mobile technologies which address primary healthcare needs and

quality healthcare which is affordable. Besides addressing India's needs, these innovations have the potential to be replicated in the developing world, where most issues mirror those in our country.

Rising patient consumerism, expansion of the continuum of care, a shift towards quality-based care, increasing patient participation, the use of technology in delivering care, and increasing insurance penetration are some of the disruptive trends which the Indian health economy is currently witnessing. These trends and turbulent events, along with the implementation of NHPS, present an opportunity for the relevant stakeholders to redefine and reorganise themselves and adopt new components of people, process and technology in their business models, in order to emerge successful in the 'New Indian Health Economy'.



#### Section 1

Is India moving towards an equitable healthcare system?



What were the effects of the turbulent events that hit the Indian healthcare industry last year?

#### Section 3

Can the National Health Protection Scheme (NHPS) be the inflexion point for the industry?







#### Financing and funding Indian healthcare





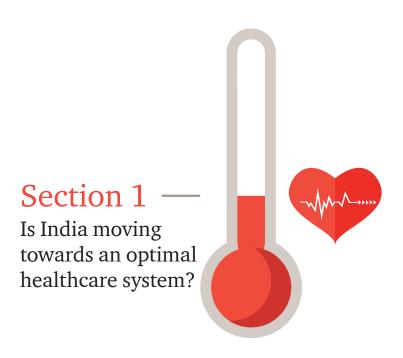
#### Section 4

Can the Indian healthcare industry continue to attract investors given its long-term potential?



#### Section 5

Are we now seeing the birth of a "New Indian Health Economy"?



India is a microcosm of all the healthcare systems in the world.

	Healthcare models	Bismarck		Beveridge		Douglas model	Out of pocket
		Classic	Neoclassic	Classic	Neoclassic		
	Payer	Private insurance	Private and public insurance	Governm	ent	Government-run insurance	Citizen
	Financing	Citizen and em	nployer premium	Citizen tax pa	ayments	Citizen premium	Citizen
	Provider	Mostly	r private	Public	Mostly private	Mostly private	Public/private
	Government's role	Regulation	Regulation and part-payment	Payment and delivery	Payment	Regulation	Regulation and delivery
	Price control	Government manages prices through regulation		As the sole payer, govt. has strong control over prices			Government has limited control
	Examples	Germany	Netherlands	Britain	Denmark	Canada	Most
		Austria	Switzerland	Cuba	New Zealand	Taiwan	developing countries
		USA (mixed)		Spain		South Korea	
	Indian examples	Individual/ group insurance (private)	Public sector undertakings	State-run hospitals, armed forces	CGHS, PPPs	Individual/group insurance (public)	Predominant model in India

PwC Analysis

# High-quality clinical outcomes at an affordable cost have helped project India as a medical hub.

The Indian healthcare system is moving towards quality healthcare at an affordable cost.



**37** Joint Commission International (JCI)<sup>1</sup> accredited

hospitals and 513 National

Accreditation Board for Hospitals & Healthcare Providers (NABH)<sup>2</sup> accredited hospital

Cost of treatment is less than **1/10th** in comparison to the USA<sup>3</sup>





Clinical outcomes in leading hospitals are comparable to those of internationally recognised facilities

A strong brand of alternative medicine and rejuvenation therapies, along with

an emphasis on wellness and

**prevention**, has drawn patients from across the globe to the country.

Source: 1 - JCI website, 2 - NABH website, 3 - IBEF website, PwC analysis



A strong quality focus and clinical outcomes at a low cost, coupled with credibility in alternative medicine, have resulted in growing medical tourism in the countr



source: Ministry of Tourism, Government of India

A strong quality focus and clinical outcomes at a low cost, coupled with credibility in alternative medicine, have resulted in growing medical tourism in the country.

#### Focus specialties for MVT in India •



Cardiac sciences

Or tho paedics

Organ transplants

Neurosciences

Oncology

**Bariatrics** 







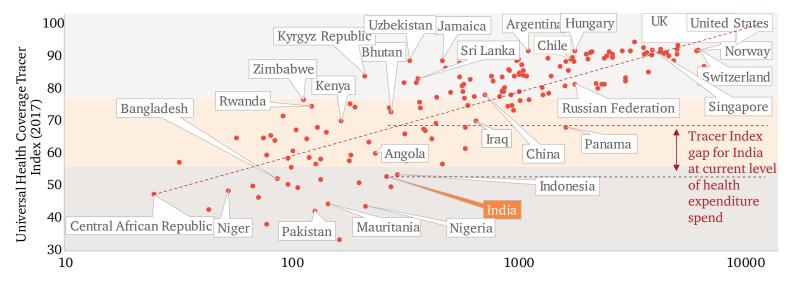






Source: PwC analysis MVT Medical Value Travel

India has a commitment to achieve Universal Health Coverage (UHC) [as part of Sustainable Development Goals]. However, its total healthcare expenditure is less than 5% of its GDP, which has resulted in sub optimal outcomes. •



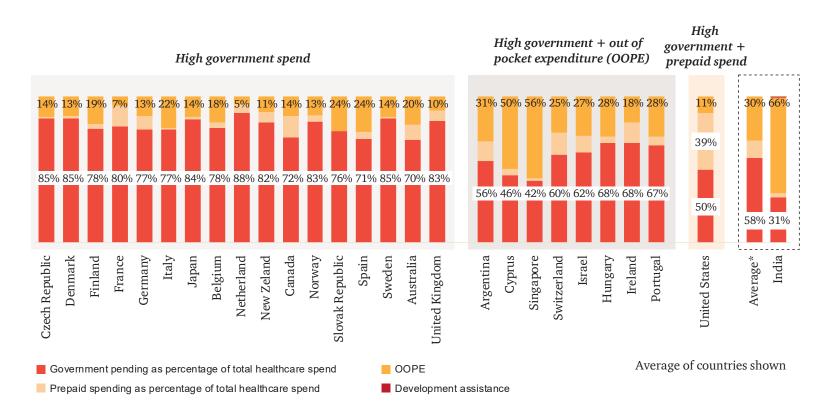
Health expenditure per capita, PPP (constant 2011 international USD) (logarithmic scale)

Source: World Bank estimates, SDG Index and Dashboards Report 2017

OOPE: Out of Pocket Expenditure

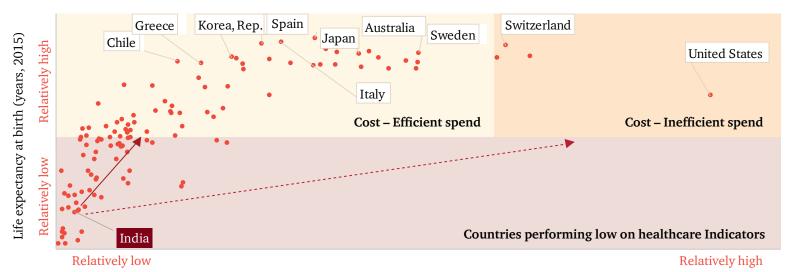
UHC tracer definition: UHC Tracer Index: Summary measure of coverage of essential health services, computed for each country by averaging service-coverage values across 16 tracer indicators on (i) reproductive, maternal, newborn and child health; (ii) infectious diseases; (iii) non-communicable diseases; and (iv) service capacity and access, and health security. A higher score reflects a higher access to these services.

High performing countries have used different methods for healthcare financing to achieve UHC •



Source: Future and potential spending on health 2015-40: Development assistance for health, and government, prepaid private and out of pocket health spending in 184 countries. Lancet 2017; 389:2005-30.

# The Nature of increased healthcare spend is important for better cost- efficient health outcomes.



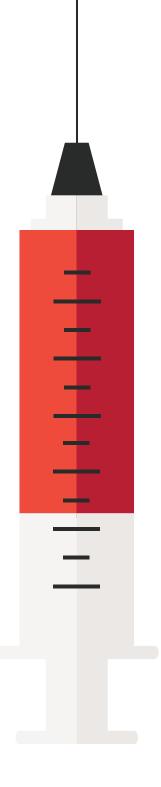
Health expenditure per capita, PPP (constant 2011 international USD)

Source: World Bank estimates



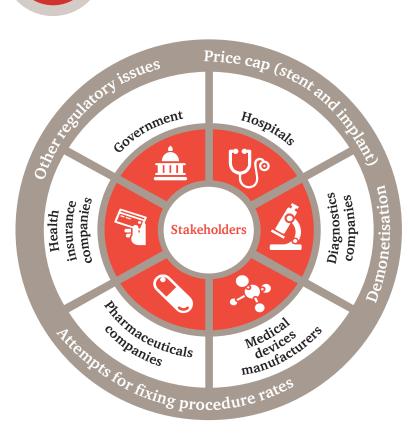
#### In summary

- India is a microcosm of all the healthcare systems in the world given its multiple attributes, be it those of provider, payor or the role of the private sector and the government.
- The country is able to provide best quality outcomes at affordable price points, thus leading to a more than 50% annual growth in the issuance of medical visas for the last two years.
- However, significant challenges remain, especially related to healthcare expenditure, which is less than 5% of the GDP as compared to the world average of ~10%.
- This has impacted India's stride towards UHC, with OOPE being above 60%.
- Countries which have performed relatively well on UHC generally have high government spending on healthcare.



#### Section 2

What were the effects of the turbulent events that hit the Indian healthcare industry last year?

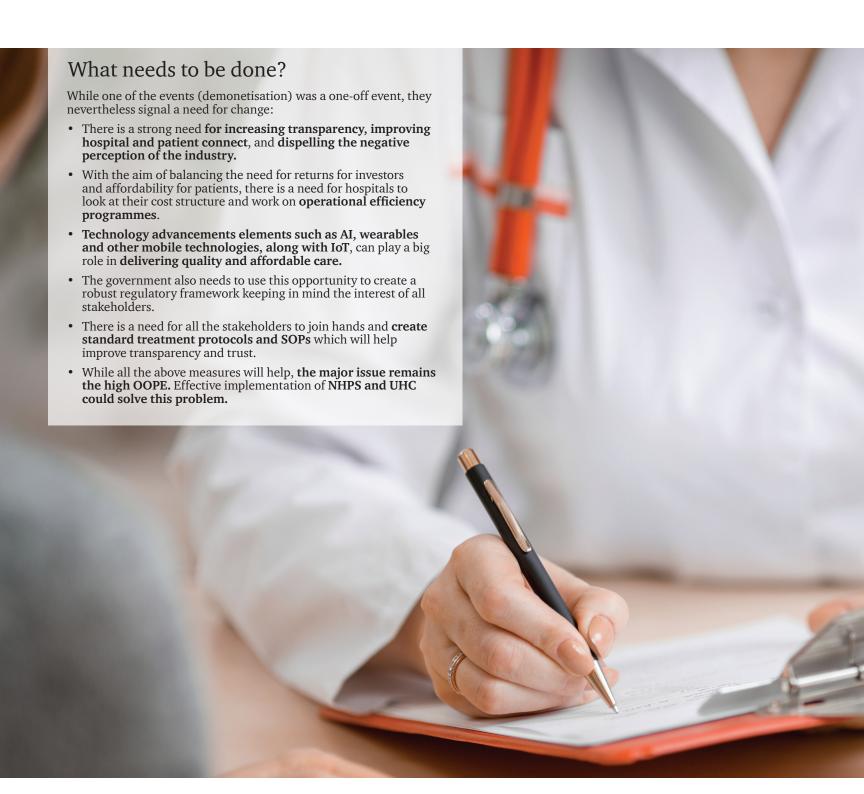


#### Impact of these events o—



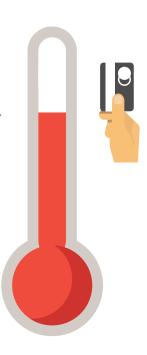
Event	What happened?	What was the impact?
Price cap (stent and implant)*	The National Pharmaceutical Pricing Authority (NPPA) fixed a price ceiling for stents in February 2017 (amendment in Feb 2018) and for knee implants in August 2017	<ul> <li>Significant reduction in stent and implant prices along with reduction in trade margins (capped at 8%) for the entire distribution value chain (including hospital)</li> <li>Companies withdrew premium stents from the Indian market.</li> <li>Companies have less inclination to launch new products given the uncertainty in the regulatory scenario.</li> <li>Reverse medical tourism with patients from India travelling to neighbouring countries for availing medical services.</li> </ul>
Demonetisation	Circulation of high- denomination currency (500 and 1,000) was stopped in November 2016.	<ul> <li>Given the high OOPE expenditure, there were liquidity issues for cash paying patients. This made it difficult for patients to pay for acute procedures/surgeries and also led to postponement of elective surgeries.</li> <li>Hospitals and diagnostic centres saw reduction in revenue growth for a few months.</li> </ul>
Attempts for fixing procedure rates	Some states (West Bengal** and Karnataka**) have attempted to regulate and fix procedure rates.	<ul> <li>Cap on procedure rates could make it difficult for hospitals to provide quality services.</li> <li>Lower profitability due to this capping can impact new hospital investments.</li> <li>Possibility of other states also bringing in similar bills with an aim to cater to populist sentiments.</li> </ul>
Other regulatory issues	Hospitals were penalised and licences were cancelled on account of 1-2 unfortunate incidents.	<ul> <li>A few hospitals were forced to curtail operations (hospital licence cancelled, removal from government empanelment, suspension of operations for a few departments) for a brief period. This resulted in revenue loss and negatively impacted the hospital's image.</li> <li>Patients could not avail/had to postpone treatment or look for alternative options.</li> <li>Anxiety and job security concern for employees</li> <li>Question of propriety – should the patients, employees and the organisation suffer due to an individual's mistake or error?</li> </ul>

Source: \*NPPA, \*\*West Bengal Clinical Establishment Regulatory Commission, the West Bengal Clinical Establishments Registration, Regulation and Transparency Bill, 2017, and the Karnataka Private Medical Establishments (Amendment) Bill, 2017, Newspaper articles UHC – Universal Health Coverage



# Section 3 —

Can NHPS be the inflexion point for the industry?



World's largest non-contributory government-sponsored health insurance scheme

#### Features of scheme



#### 0.5 billion





Beneficiary identification as per Socio Economic Census 2011



Proposed Aadhaar linkage



**5,00,000** INR family floater cap



Premium to be borne **60:40** by Centre and state



Additional source of funding for government: **1% cess** 



New institutional structures proposed – National Health Agency and State Health Agency



Both public and private hospitals to be empanelled



Focused on the most vulnerable population

#### Paradigm shifts



Shift towards outputbased strategic purchasing of services from private sector



Merger of different government insurance schemes



Government shifts from being a provider to a payer also

#### How will the NHPS evolve? •

#### **Short-term steps**

- Set up governance mechanism
- Increase hospital empanelment
- Define the benefits under the scheme

#### Long term steps

- Benefits under the scheme to include OPD and Primary care
- Build in system efficiencies

#### Medium-term steps

- Price discovery and financing
- Right targeting of beneficiaries
- Expand scheme coverage
- Merge different schemes

#### Stakeholder Implications •

#### Hospitals

- Push for package rates
- Focus on quality
- Focus on accreditation

### Pharmaceuticals and diagnostic companies

- Focus on low-cost drugs and quality
- · Focus on centralised procurement
- Focus on supply-side shortages

#### Insurance companies

- Build capacities to handle large claims and identify frauds, abuse and misuse
- Empanel hospitals in tier 2 and 3 areas
- · Negotiate package rates
- Improve system automation
- Build actuarial capacities, clinical audit capacity and hospital scrutiny

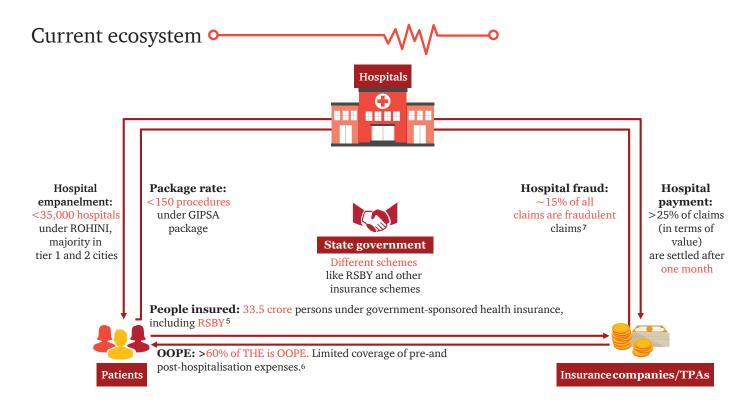
#### Digital and IT service providers

 Develop IT architecture to link patient data, hospital data and insurance company data with Socio Economic Classification (SEC) and Aadhaar data

#### Central and state government and sector regulators

- · Identify sources of financing
- Build in system automation for monitoring and grievance redressal
- Ensure fair competition

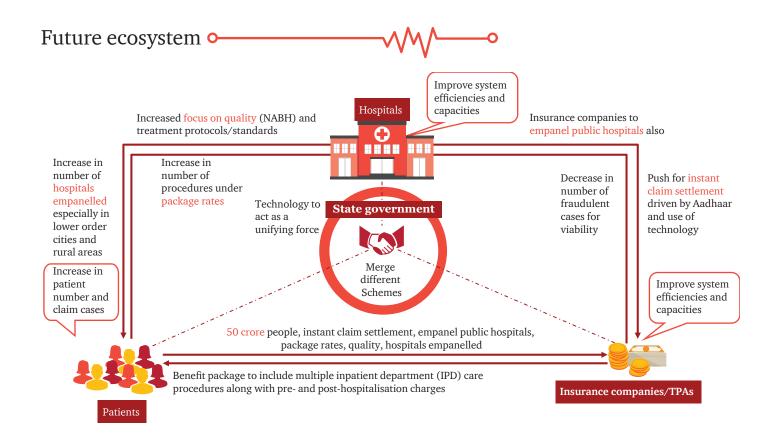




ROHINI – Registry of Hospitals in Network on Insurance, GIPSA – General Insurers' Public Sector Association (India), RSBY - Rashtriya Swasthya Bima Yojana, TPA – Third party administrator, THE – Total health expenditure

Source: 5. IRDA Annual Report 2016-17; 6. National Health Accounts 2013-14; 7. Industry reports

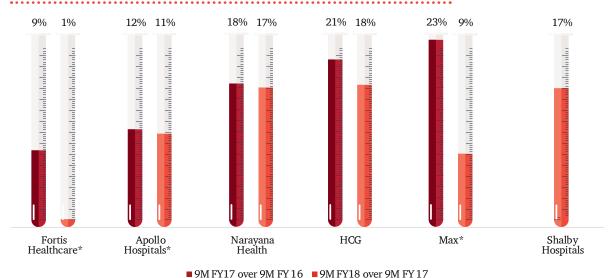






# Section 4 Can the Indian healthcare industry continue to attract investors given its long-term potential?





\*Only the hospital business revenue is accounted for in these cases.

Source: Q3 Earning updates for FY17 and FY18 from company websites – Apollo, Fortis, Narayana Health, HCG, Max and Shalby Hospitals

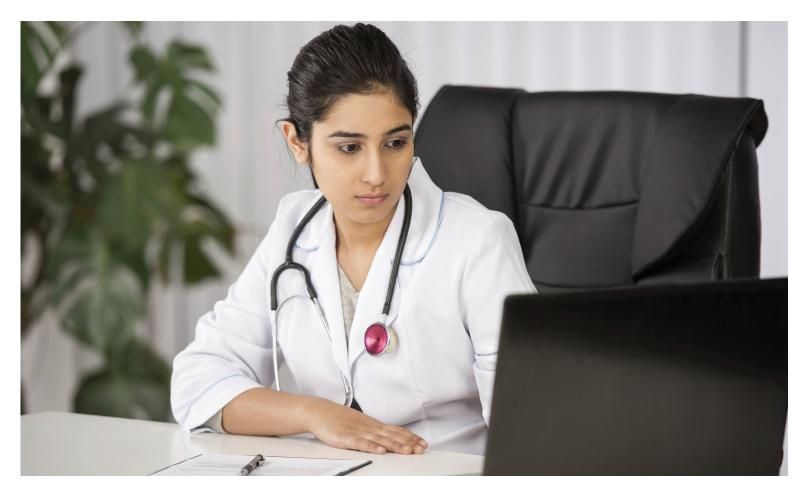
# Healthcare Players continue to see listing as an attractive option for raising funds •



Year	Company	Amount raised (crore INR)	At an approx. valuation (crore INR)	
Healthcare IPOs	Shalby Hospitals	504.8	2,678	
	Aster DM Healthcare	725	9,600	
FY17	Thyrocare	482	2,412	
FY16	Narayana Health	613	5,109	
	HCG	650	1,854	
	Dr. Lal Pathlabs	670	4,500	

Like FY 16 and FY 17, FY 18 also witnessed continued investor interest in healthcare IPOs, with Shalby and Aster DM getting listed

Source: VCCircle and Livemint website



#### PE deals and FDI inflow in the last 12 months o-

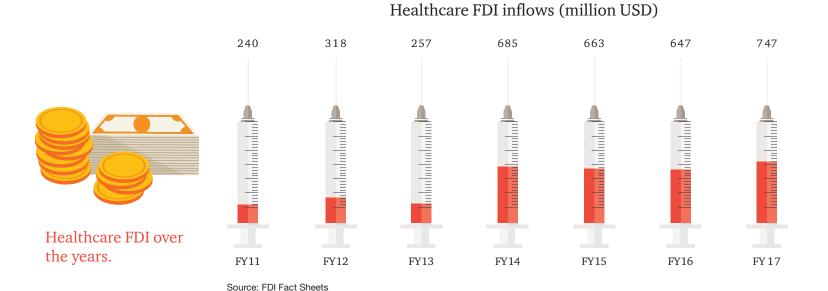


Areas	Key features						
Major private equity deals since the last	The interest of the private equity fraternity continued in the year 2017 with multiple companies in the healthcare sector raising funds. This year also saw private equity interest in the home healthcare space						
report (more than 10 million USD)	Company	Amount (million USD)	Sector	Investors	Date		
	Radiant Life Care	200	Hospitals	KKR	July '17		
	Condis Healthcare	200	Hospitals	India Value Fund	Mar '17		
Since January 2010, more than 110	Manipal Health Enterprises	171	Hospitals	Temasek	Mar '17		
private equity (PE) and venture capital	Max Healthcare Institute	75	Hospitals	IFC	May '17		
(VC) investors have invested in Healthcare	Paras Healthcare	43	Hospitals	Creador Capital	July '17		
delivery space.	Healthcare at Home	40	Home healthcare services	Quadria India	Apr '17		
	Portea Medical	26	Home healthcare services	IFC, Accel India, Sabre Capital, Qualcomm Ventures, CDC-MEMG	Nov '17		
	Asian Institute of Medical Sciences	21	Hospitals	CDC Group	Dec '17		
<b>⊕ †</b>	Nightingales Home Health Services	21	Home healthcare services	Eight Roads Ventures, Mahindra Partners	Apr '17		
	iGenetic Diagnostics	20	Diagnostics	CDC-MEMG	Mar '17		
	Regency Hospital	14	Hospitals	IFC, Healthquad, Kois Invest	Feb '17		
	ASG Eye Hospitals	11.7	Eye Care	IDFC Alternatives	Sep '17		

Source: Venture Intelligence

PwC analysis

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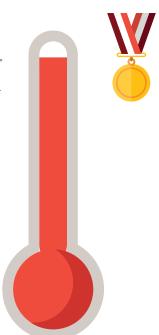
#### In summary

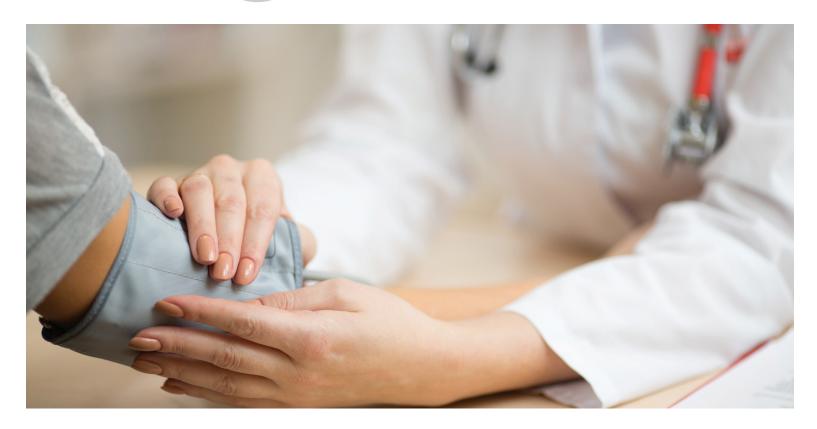
- Most of the leading hospital chains have shown steady revenue growth despite the recent headwinds.
- FY18 continued to witness interest from the primary market in healthcare companies, with the listing of Shalby Hospital and Aster DM Healthcare.
- The interest of the PE fraternity continued in the year 2017, with investment taking place in multiple healthcare companies.
- FDI flow continued unabated with a flow of 747 million USD in FY17, the highest amount in the last 7 years.



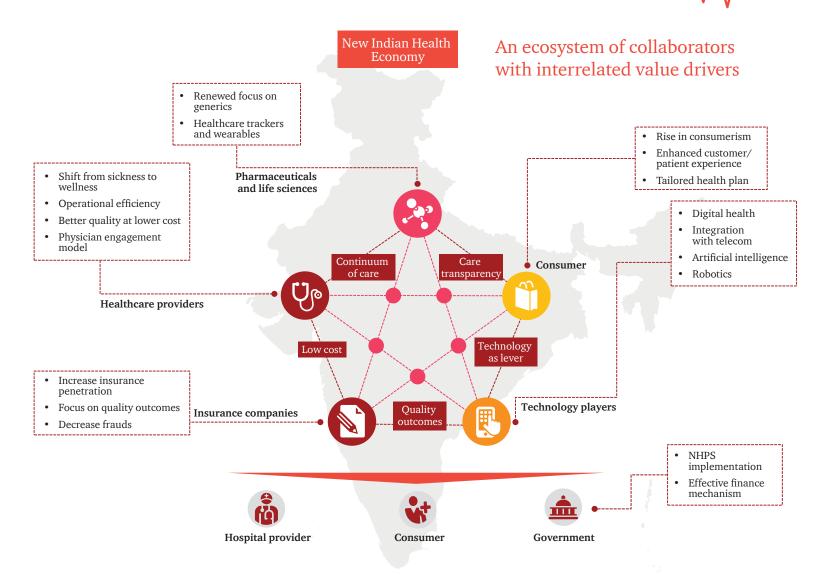
#### Section 5 —

"Are we now seeing the birth of a "New Indian Health Economy"?"



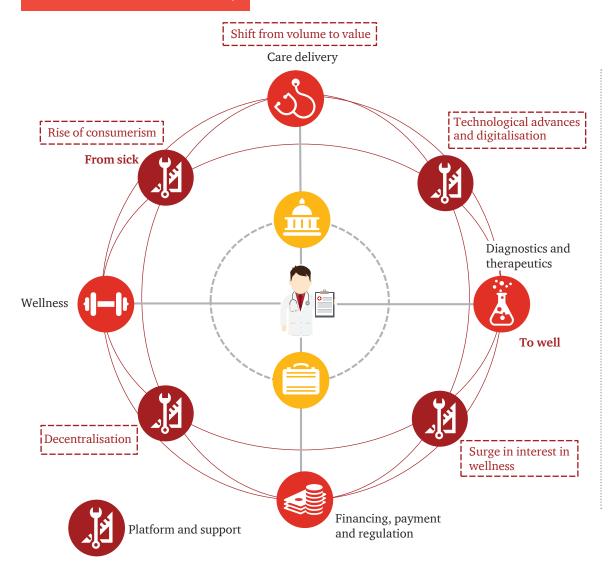


#### 



To grow in this 'New Health Economy', stakeholders need to align themselves with the accelerating trends.

#### **New Indian Health Economy**





#### Government

- Focus on moving from provider to payor
- Effective implementation of NHPS
- · Renewed focus on generics
- · Facilitate 'Make in India'



#### **Providers**

- Providers need to recalibrate their operating model
- Leverage the following:
  - Technology
  - · Value-based care
  - · Operational efficiency
  - · Patient experience

## About NATHEALTH

NATHEALTH has been created with the Vision to "Be the credible and unified voice in improving access and quality of healthcare". Leading Healthcare Service Providers, Medical Technology Providers (Devices, Equipments & IT), Diagnostic Service Providers, Health Insurance companies, Health Education Institutions, Medical Journalism companies, Biotech/Lifesciences related companies, Healthcare Publishers, Healthcare Consultants, Home Healthcare companies, PE & VC companies and other stakeholders have come together to build NATHEALTH as a common platform to create the next level of momentum in Indian Healthcare. NATHEALTH is an inclusive Institution that has representation of small & medium hospitals and nursing homes as well as Healthcare Start-up companies. NATHEALTH is committed to work on its Mission to encourage innovation, help bridge the skill and capacity gap, help shape policy & regulations and enable the environment to fund long term growth. NATHEALTH aims to help build a better and healthier future for both rural and urban India.

#### Contact

Mr. Anjan Bose Secretary General, Healthcare Federation of India (NATHEALTH) Mb: +91-9999016000 anjan.bose@nathealth.co.in

# About PwC's Healthcare practice

PwC India's Healthcare team offers advisory services in the healthcare sector covering multiple domains such as strategy, business planning, market scan, commercial due diligence, feasibility study, operations improvement, cost reduction, health IT, digital and technology, internal audit and PPPs.

Healthcare Advisory has a dedicated team with diverse operational experience in setting up and managing hospitals, and in healthcare consulting. This enables the team to deliver granular strategy and market and operational insights of the highest quality. The team works with leading healthcare providers, medical technology companies, central and state governments, diagnostic players, insurance companies and private equity players on projects both in India and overseas.

#### Contact

Dr. Rana Mehta
Partner and Leader, Healthcare
PricewaterhouseCoopers Private Limited
D: +91 124 6266710 | M: +91 9910511577
rana.mehta@pwc.com

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#### **Healthcare Team**

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Dr. Kuntal Mukherjee

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Dion D'Souza

#### **Corporate Communications Team**

Kirtika Saxena



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