

ISAS Working Paper

No. 3 – Date: 31 August 2005 (All rights reserved)

Institute of South Asian Studies
Hon Sui Sen Memorial Library Building
1 Hon Sui Sen Drive (117588)
Tel: 68746179 Fax: 67767505
Email: isaspt@nus.edu.sg
Website: www.isas.nus.edu.sg



Leading the Private Sector into the Indian Health Sector

Dr Maathai K. Mathiyazhagan¹

The health sector in India is at the crossroads today. In line with economic progress and liberalisation, Indian states are pushing for reforms in the healthcare sector. The private health sector's market size in India is enormous. It contributes to almost 4.2 percent of GDP of India's total health expenditure (5.1 percent of GDP). In 2001, the ratio of hospital beds to population was 7 beds per 1,000 people. The public hospitals contributed 4 beds per 1,000 people. The ratio of physician to patients is 1:1,000 and every auxiliary nurse midwife has to serve around 4,707 people in the rural areas in India. Further, Indians travel on the average of seven kilometres for the physical accessibility of a primary health centre.

The signing of the Comprehensive Economic Cooperation Agreement (CECA) by India and Singapore in June 2005 paves the way for increased business and investment opportunities for Singapore companies in the Indian health sector.

The CECA facilitates significant provisions in the health sector by (a) including the most favorable nation (MFN) treatment for trade in health products and services as equal to the domestic players in India; (b) tariff concessions for Singapore's exports, including pharmaceuticals and medical equipment including diagnostic kits; (c) efficient customs procedures for free movements of health products; (d) mutual recognition agreements for electrical and electronic equipments, which are the byproducts of medical instruments and technology; and (e) a greater market access for investments, joint ventures and collaborations in the health sector based on the MFN treatment.

Recent healthcare utilisation surveys show that private health care providers contribute to 60 percent of India's curative health services needs. Even the lower and middle income groups in the rural areas bypass supply-constrained government health care services to seek medical care from the private sector. The demand for health care services is expected to surpass supply in the next decade. Given the Indian preference for private health care providers, the role for the private sector will grow significantly. The Confederation of India Industry's (CII) Indian Healthcare Federation estimates that a fresh investment of US\$25 billion (S\$41.62 billion) is needed to establish quality health facilities in the next 8-10 years.

Since Singapore enjoys the MFN treatment, there is scope for investments in private hospitals and diagnostic centres to cater to the needs of vibrant middle and high income people. The

joint-venture between healthcare giants Parkway Holdings Limited and Apollo Hospital Group is a case in point.

The working age-group population provides a further example of the potential within the Indian health sector. The 2001 census estimates revealed that more than half of the total population is in the working age-group population and the figure is set to grow. Ten percent of the population is 55 and above. The rising per capita income and preferences or quality and standards point to increase private consumption expenditure in healthcare in India.

The changing epidemiological pattern in India also induces the demand for better quality health care services. In the World Health Organization's estimation in 2003, India's not only home to a large number of the world's diseases, it also accounts for a major portion of the world's child and maternal deaths.

The Apollo Hospital Group, which is the acknowledged leader in world-class private healthcare in India, currently carries out preventive check-up on about 300 people daily. Medical-related infrastructure development, led by private health care providers, is expected to grow around 13 per cent annually by 2015. This will inevitably lead to an increase in the demand for medical equipments, instruments and hospital supplies in India.

Currently, very few foreign players such as Bayer, Drager Medical, and Siemens have joint ventures with Indian companies. Singapore companies and investors can tap this market potential through manufacturing medical appliances and instruments, appliances for measuring, checking, testing, navigating and other purposes, and optical instruments and photographic equipments.

The pharmaceutical Industry is another potential area of opportunity. In January 2005, India switched to product patent and it is already having a profound effect on the local pharmaceutical industry. Subsidiaries of pharmaceutical giants such as Abbott, AstraZeneca, Glaxo Wellcome, Johnson & Johnson, BASF, Novartis, Reckitt Benckiser, SmithKline Beecham, UCB, and Sankyo have been quick to set up base in India. The Indian pharmaceuticals market grew around 12.9 percent as compared to China's growth of 10.4 percent from 1997 to 2002.

Another area for potential investments is health insurance. Reforms in the insurance sector commenced with the enactment of the Insurance Regulatory and Development Authority Act 1999, which facilitated the entry of private insurance companies into the Indian insurance market. Currently, there are nearly 16 private companies that have received license for business operation with a cap of 26 percent of equity for a foreign partner and this is expected to rise to 49 percent. It is interesting to note that only six of the private insurance companies are operating a health insurance scheme.

The Insurance Regulatory and Development Authority estimates that less than 10 percent of the population has some financial and insurance protection against health risks. A longitudinal study in rural India with four counts by the author of this article revealed that, in 1993, 87% of the people were willing to pay for rural health insurance scheme. This increased into 96 percent in 2003. Household heads were willing to pre-pay a health insurance premium for yearly medical services of between Rs150 to Rs300 (S\$6 to S\$12) for themselves or their families. This is the minimum individual's health insurance premium per year for the "mediclaim policy" of most of the insurance companies in India. An insurance

survey by LIC and KPMG reveals that the annual growth of average insurance premium in India has been 8.2 percent compared with the global average of 3 - 4 percent. Insurance density in the country, based on per capita premium, was US\$5 in the life insurance segment and US\$2 in the general segment in 2002 as compared to the global per capita premium of US\$3,236 in Japan and US\$1,079 in the United States.

The CECA provides a framework for concluding Mutual Recognition Agreements to eliminate duplicative testing and certification of products to facilitate entry of goods for sale in the respective markets of Singapore and India. This would be implemented in the telecommunication sector in the next 12 to 18 months. The health sector will benefit from this through the Telemedicine Project. This primarily involves the use of communications and information technology to provide healthcare services when distance separates the patients from the doctors. Leading private and corporate hospitals have adopted this initiative. A pilot telemedicine project in Kolar district in Karnataka State was a huge success. The government now plans to implement this project in 177 secondary-level hospitals in a phased manner. Many of the state governments are also keen to implement telemedicine on a pilot basis.

Medical tourism is also an important niche market. Technological advancement has enabled the cross border delivery of many health services, which lead to significant differences in costs, availability and quality of health care across countries. A joint study by CII and McKinsey showed the medical tourism market in India was worth close to US\$330 million in 2001 and is set to contribute to an additional US\$2 billion in revenue to the tertiary hospitals by 2012. Hospitals in India offer medical treatment at almost half the cost of Singapore's hospital. A complex open heart surgery costs only S\$7,000 in Apollo Hospital as compared to S\$15,700 in a private hospital in Singapore. Similarly, a routine cataract operation costs S\$150 in India and between S\$2,000 to S\$3,000 in Singapore.

India offers much potential in the private healthcare market, and in the pharmaceuticals and insurance sectors. For Singapore's private sector, the CECA has paved the way for the scoping of business and investment opportunities. The onus is now on the Singapore businessmen, investors and entrepreneurs to create a foothold in what is slated to be the next big thing in India.

¹ Dr Maathai K. Mathiyazhagan a Research Fellow at the Institute of South Asian Studies. He can be contacted at isasmkm@nus.edu.sg.