

Financing Healthcare Expenditure in Indian Context

Name: Pooja Saini

Roll No.: 200040100

Indian Institute Of Technology, Mumbai

Associate Prof. Puja Padhi, IIT Bombay

Abstract:

Healthcare financing is a major challenge in India, with rising healthcare costs contributing to the financial burden of low-income and rural populations. In this research and development project, we aim to evaluate the current healthcare financing models in India and provide policy recommendations to improve healthcare financing in the country. Our literature review examines the key findings from various studies and evaluates the effectiveness of the healthcare financing models in place in India. We analyze the different healthcare financings models such as Out-of-pocket costs, commercial health insurance, and government-sponsored health insurance programmes. We emphasize each model's advantages and disadvantages and offer policy suggestions based on our study. Our policy recommendations include increasing government spending on healthcare, expanding health insurance coverage, enhancing the standard of healthcare services, and lowering people's out-of-pocket expenses. The findings of this project emphasize the importance of addressing healthcare financing in India to increase the quality of health outcomes while easing the budgetary load on the population.

Keywords: *Literature review, healthcare financings models, policy recommendations*

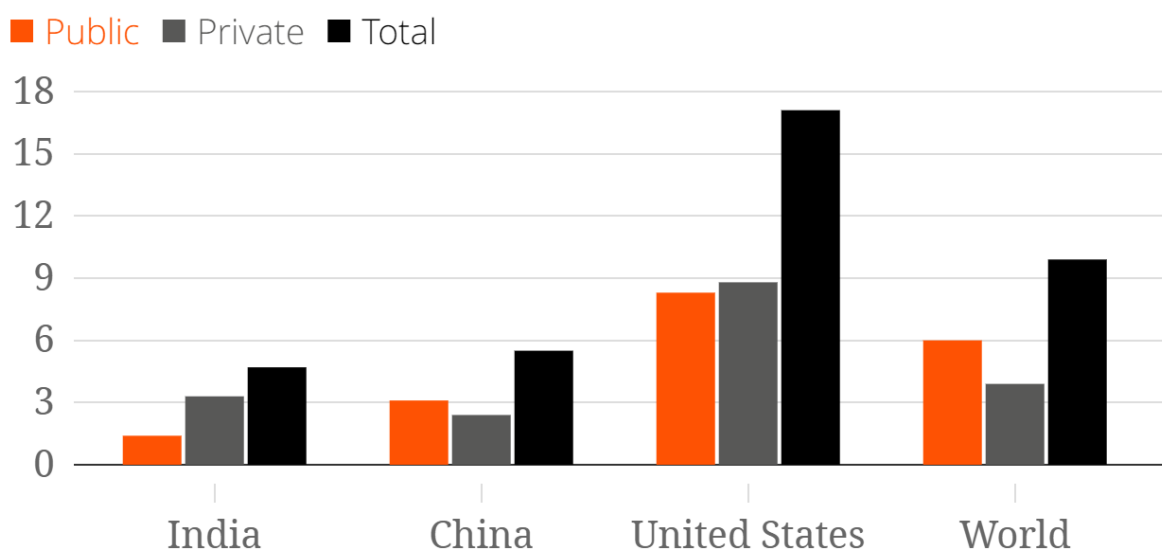
Introduction:

Financing healthcare expenditure is a complex issue, especially in developing nations like India, where a sizable segment of the population is impoverished. Despite substantial recent advancements in the health sector, India still faces numerous challenges in providing affordable and accessible healthcare to all its citizens. According to a report by the World Bank, over 60% of healthcare expenses in India are borne out of pocket by individuals and families, making India one of the countries with the highest out-of-pocket expenditure rates globally. This has led to a situation where many households are forced to sell assets, borrow money, or cut back on other essential expenses to pay for healthcare. Out-of-pocket healthcare expenses remain a

significant burden on households, often leading to catastrophic health expenditures and pushing families further into poverty.

The issue of healthcare financing in India has attracted significant attention from policymakers, researchers, and healthcare providers in recent years. Many studies have looked at how much healthcare costs affect households, how well government-sponsored health insurance programs work, and how private health insurance plays a part in mitigating financial risk.

Health care expenditure as % of GDP in 2014



a comparison of the percentage of GDP that various nations spend on healthcare.
data: PWC

For example, Using a new methodology, Berman, Ahuja, and Bhandari (2010) evaluated how India's healthcare expenditures contribute to poverty and found that healthcare expenses are a significant contributor to household poverty. Similarly, Purohit (2013) examined the poor people's health insurance program in India and discovered that it did not affect lowering healthcare costs for low-income households.

Additional research has concentrated on the efficiency of lowering out-of-pocket healthcare costs to lower poverty. A disaggregated research by Garg and Karan (2014) at the state and rural-urban levels in India revealed that lowering healthcare costs might dramatically lower poverty in the nation. In their 2018 study on disease-specific out-of-pocket and catastrophic hospital costs in India, Kastor and Mohanty discovered that households experience financial hardship when it comes to healthcare.

Despite the challenges, there have been some positive developments in recent years. The Indian government has set a goal of achieving universal health coverage by 2022 (*Singh, 2013*) and has implemented various programs and policies to achieve this objective. For example, the *Chiranjeevi Yojana program* in Gujarat has led to an increase in institutional deliveries and improved maternal and neonatal outcomes (*Mohanan et al., 2018*).

In India, there are still huge inequalities in the finance and accessibility of healthcare. Selvaraj and Karan (2018) contend that publicly funded health insurance programs are inadequate at protecting households from financial risk. However, there are major differences between the public and private sectors in terms of healthcare consumption and out-of-pocket costs (Nandi et al., 2017).

To address these challenges, policymakers and healthcare providers need to consider innovative financing models and strategies that improve access to healthcare for all. Further research is needed to identify effective approaches to healthcare financing in the Indian context and to evaluate the impact of existing programs and policies.

The research will be guided by several key research questions, such as: What are the existing healthcare financing models in India, and how effective are they in providing financial risk protection to households? What are the key drivers of out-of-pocket expenditure on healthcare, and how can these be addressed? What are the barriers and opportunities for implementing innovative healthcare financing models in India?

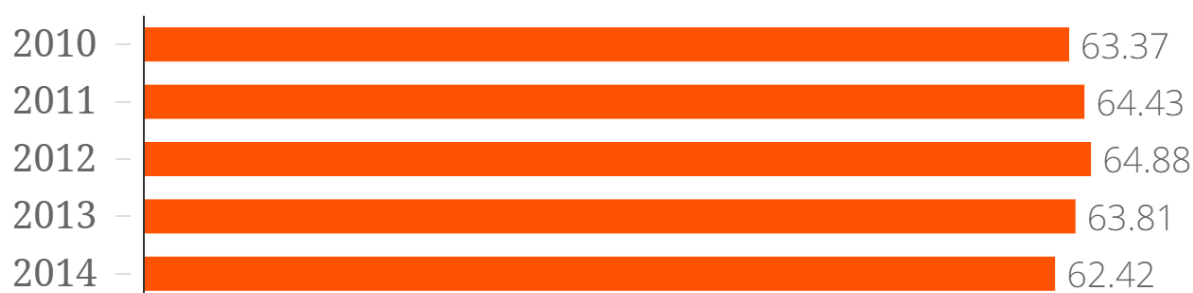
The research's conclusions will have a big impact on how India finances its healthcare system. Policymakers, healthcare providers, and insurance companies will receive recommendations based on the research on how to develop and implement efficient healthcare financing models that can protect households from financial risk, lower out-of-pocket costs, and raise the general standard of healthcare services.

The project will draw on a range of interdisciplinary literature, including health policy, economics, and public health. A combination of quantitative and qualitative research methods will be employed, including secondary data analysis, stakeholder consultations, and household surveys, to provide a comprehensive understanding of the healthcare financing landscape in India.

Overall, the issue of financing healthcare expenditure in India is a critical area for research and policy development. This R&D project aims to examine the current state

of healthcare financing in India, identify gaps and challenges, and explore innovative financing models and strategies that improve access to healthcare and reduce financial risk for households. The project will draw on existing research, data, and policy documents and will involve primary data collection through surveys and interviews with key stakeholders in the healthcare sector. The findings of the project will be used to inform policy development and advocacy efforts to improve healthcare financing and access in India.

Out of pocket expenditure as % of total health expenditure



data: Ministry of Health

Literature Review:

One of the world's biggest and fastest-growing economies in India, yet it still faces numerous challenges, including providing access to quality healthcare to its vast population. India is a country that has made significant strides in terms of healthcare in recent years. In India, the burden of healthcare expenditure falls heavily on individuals, leading to impoverishment and deepening health insecurity. This literature review examines the existing literature on financing healthcare expenditure in the Indian context, focusing on the key findings and gaps in the literature. This literature review examines the existing research on healthcare expenditure and financing in India.

Berman et al. (2010) used a new methodology to assess the impoverishing effects of healthcare payments in India. They found that healthcare payments were a major contributor to poverty in the country, pushing many households below the poverty line with nearly 40% of households spending more than 10% of their income on healthcare. The study highlighted the need for a more effective approach to financing healthcare in India.

La Forgia and Nagpal (2012) examined the effects of government-sponsored health insurance in India and found that it frequently fell short of protecting the poor financially. According to the study, while insurance programs improved access to healthcare, their ability to lower out-of-pocket costs was only marginally affected. The report made the case that more efficient finance methods were required to address the problem of healthcare financing in India.

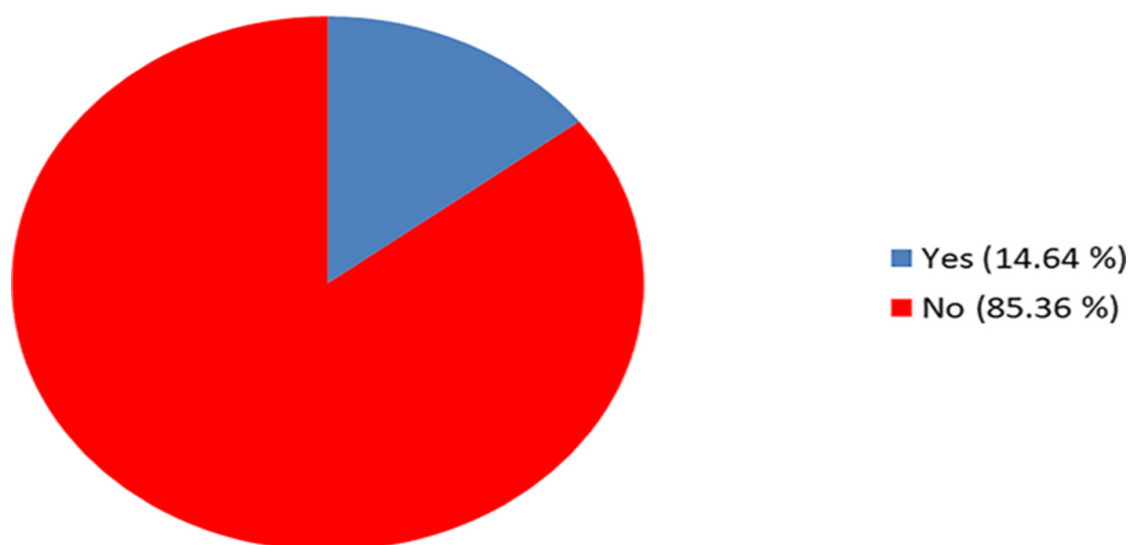
The health systems in India were described in detail by Chokshi et al. (2016), who also emphasized the difficulties with healthcare financing there. Chokshi et al. (2016) noted that healthcare systems in India are plagued by insufficient financing, inadequate infrastructure, and a shortage of trained healthcare professionals. The study found that healthcare financing was a major challenge in India, with high levels of out-of-pocket expenditures. The authors argued that a more comprehensive approach to healthcare financing was needed to address these issues.

The 2008 introduction of India's poor people's health insurance program was analyzed by Purohit (2013). The strategy had little effect on cutting healthcare out-of-pocket costs, according to the report. In addition, the investigation discovered that the program was failing to successfully reach the most disadvantaged members of society, which was one of its primary goals.

Garg and Karan (2014) conducted a disaggregated analysis of out-of-pocket expenditures for healthcare at the rural-urban and state levels in India. The study found that out-of-pocket expenditures were a major source of poverty in the country. They suggested that reducing out-of-pocket expenditures could be an effective way to reduce poverty in India.

The cost of hospitalization in India was examined by Kastor and Mohanty (2018), who concentrated on disease-specific out-of-pocket and catastrophic medical costs. The study discovered that hospitalization for several conditions was linked to severe cost burdens for households, driving many into financial hardship about their health. The authors argued that to address the problem of healthcare financing in India, more efficient financing structures were required.

Catastrophic Health Expenditure

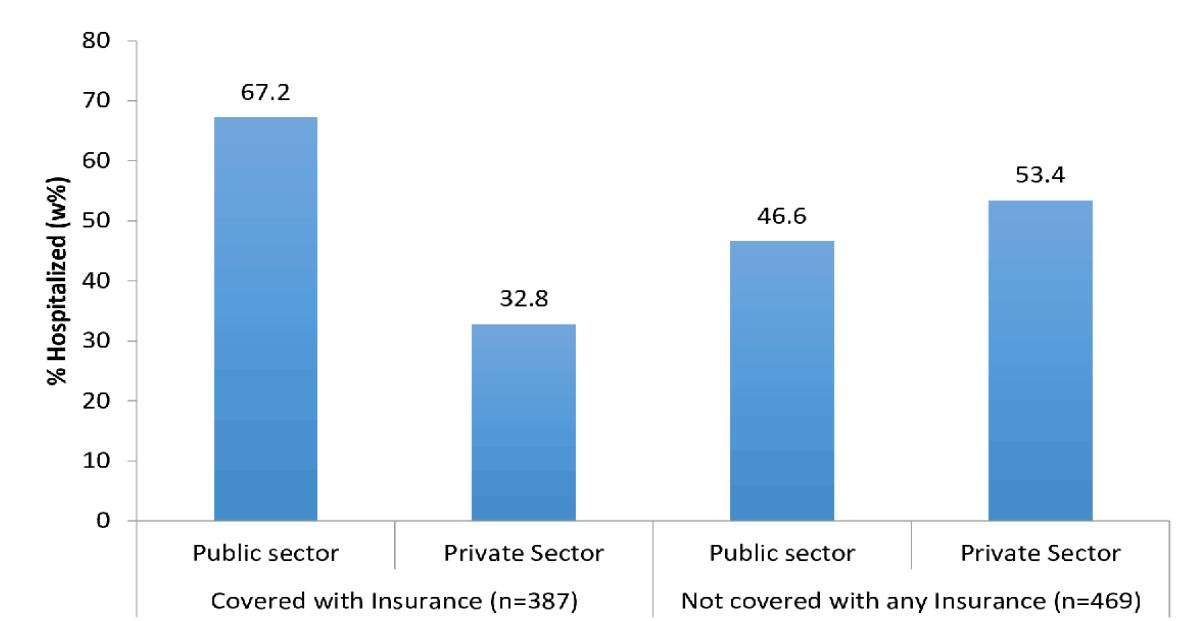


Singh SB, Niraula SR, Yadav GK, Rai S, Gautam S, et al (2022) Elderly population's catastrophic health spending on chronic non-communicable diseases: cross-sectional research from an Eastern Nepalese sub-metropolis. <https://doi.org/10.1371/journal.pone.0279212> PLOS ONE 17(12): e0279212

Similarly, Binnendijk, Koren, and Dror (2012) evaluated the affordability of treating non-communicable diseases among the rural poor in India and found that the cost of treatment was prohibitively high.

The high cost of healthcare was found to be a substantial barrier to getting care by Raza et al. (2013), who researched healthcare-seeking behavior among self-help group households in rural Bihar and Uttar Pradesh. When Banerjee, Deaton, and Duflo (2004) looked at healthcare delivery in rural Rajasthan, they discovered that public health facilities lacked manpower and resources, which resulted in subpar care. Using data from institutional deliveries and maternal and neonatal outcomes in Gujarat, Mohanan et al. (2018) examined the impact of the Chiranjeevi Yojana scheme. They discovered that while the scheme improved maternal and neonatal outcomes, it did not eliminate financial obstacles to care.

In their 2015 framework for ensuring universal health care in India, Patel et al. stressed the importance of a thorough and well-rounded strategy that takes into account funding, government, and human resources. In their 2017 study of Chhattisgarh state's universal government health insurance program, Nandi, Schneider, and Dixit assessed hospital utilization and out-of-pocket expenses in both the public and private sectors and discovered that the program had little effect on financial security. Selvaraj and Karan (2012, 2018) looked at national sample surveys and discovered evidence of growing health insecurity as well as the failure of publicly-funded health insurance programs to protect people from financial risk.



Lessons for universal health coverage from Chhattisgarh State, India's universal government health insurance program about hospital utilization and out-of-pocket costs in the public and private sectors (Sulakshana Nandi, P. Dixit, and H. Schneider)

The comprehensive evaluation of private health insurance programs in India by Sinha et al. (2019) revealed that while they offer financial security, they are frequently pricey and offer only a small amount of coverage.

Overall, the research indicates that financing healthcare in India is a big concern, with high out-of-pocket expenses causing poverty and escalating health insecurity. Private health insurance plans are frequently unaffordable, and publicly-funded health insurance programs have had little effectiveness in protecting against financial risk. To provide universal health care in India, there is a need for a comprehensive and integrated strategy that tackles financing, governance, and human resources.

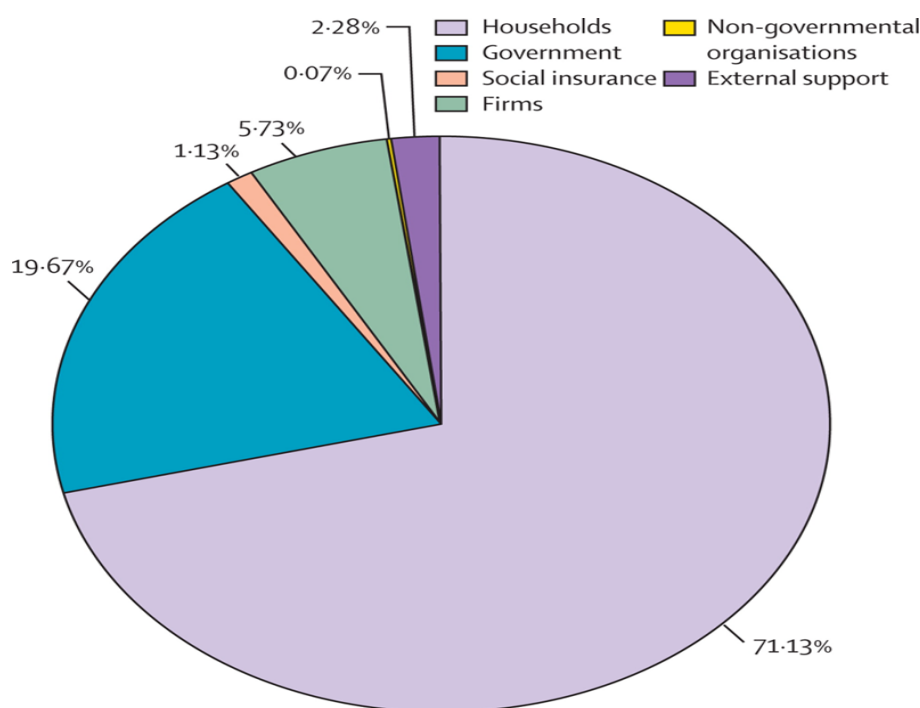
The literature reviewed above highlights the major challenges of healthcare financing in India, which has a predominantly out-of-pocket healthcare expenditure model. The literature suggests that high out-of-pocket healthcare expenditures are one of the main reasons for impoverishment and financial distress among Indian households.

The studies that have been evaluated also shed light on various measures made by the Indian government to deal with the problems associated with healthcare financing. As an illustration, the government has introduced numerous health insurance programs. While these programs have increased access to healthcare, they have also run into several problems, including a lack of finance, poor governance, and low public awareness.

Furthermore, according to the literature, India's private health insurance market is still in its infancy, with little penetration and restricted coverage. The bulk of the rural and informal labor is excluded from private health insurance programs since they are primarily available to urban residents and those in the formal economy.

Healthcare Financing Models in India:

Healthcare financing in India is a complex issue that has been the focus of various healthcare policies and programs. India is one of the countries with the highest out-of-pocket health expenditures in the world, leading to a high incidence of catastrophic health expenditures and pushing households into poverty. In this response, we will discuss the various healthcare financing models in India, their strengths and weaknesses, and the progress toward universal health coverage (UHC) in the country.



Health care financing: possibilities and difficulties. Dr. AK Shiva Kumar, Ph.D., Prof. Abhijit Sen, Ph.D., Lincoln C Chen, MD, Mita Choudhury, MD, Shibani Ganju, MD, Vijay Mahajan, MBA. Volume 377, Issue 9766, Pages 668–679 of The Lancet (February 2011). DOI: 10.1016/S0140-6736(10)61884-3

Government-sponsored health insurance programs are one of the ways that India finances its healthcare system. Several programs, including the State Government Health Insurance Scheme (SGHIS), Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (AB PM-JAY), and Rashtriya Swasthya Bima Yojana (RSBY), seek to protect the finances of the poor and vulnerable populations. These schemes cover the cost of hospitalization, surgery, and other medical expenses, and are intended to reduce out-of-pocket expenses. However, these schemes have been criticized for inadequate

coverage, poor quality of care, and low reimbursement rates, leading to a low uptake by the intended beneficiaries.

Private health insurance is another healthcare financing model, primarily offered by private insurance companies that have gained popularity in India, especially among the middle and upper classes. These plans offer coverage for a wide range of medical expenses, including hospitalization, surgical procedures, diagnostic tests, and consultations with doctors. Both inpatient and outpatient care are covered by private health insurance, which can be obtained either on an individual basis or as a group policy by companies. Unfortunately, the majority of people cannot afford private health insurance, and the coverage is frequently constrained and excludes people with pre-existing diseases.

Out-of-pocket expenditure is the primary healthcare financing model in India, with over 60% of healthcare expenditure being borne by households. This has led to a high incidence of catastrophic health expenditure, where households are forced to borrow money, sell assets or reduce spending on other essential needs to pay for healthcare expenses. This financing model is regressive and disproportionately affects the poor and vulnerable populations, perpetuating poverty and inequality.

Despite the various healthcare financing models in place, many households in India continue to face financial hardship due to healthcare expenditure. A study by Berman et al. (2010) found that healthcare expenses were a major cause of impoverishment in India, with over 39 million people being forced below the poverty line because of medical costs.

The progress toward achieving UHC in India has been slow but steady. The government's flagship program, Ayushman Bharat, aims to provide financial protection to 100 million vulnerable families through the AB PM-JAY scheme, covering the cost of hospitalization and other medical expenses. The program has been successful in lowering out-of-pocket costs and catastrophic medical bills, but it has not yet been determined whether it has a positive impact on health outcomes and health disparities.

The adoption of efficient healthcare financing strategies in India faces several difficulties. The low amount of public healthcare spending is one of the main issues. India spent only 1.3% of its GDP on public healthcare in 2021, far less than the 2.5% the World Health Organization recommends. Inadequate healthcare facilities, a lack of medical staff, and restricted access to necessary medications are all effects of the low level of public investment in healthcare.

Another challenge is the high level of fragmentation in the Indian healthcare system. In India, a combination of governmental and commercial organizations provide healthcare, and the standard of service varies greatly across them. This makes it difficult to implement a cohesive healthcare financing system that provides financial risk protection to the entire population

In conclusion, healthcare financing in India is a complex issue that requires a comprehensive and integrated approach. The three main healthcare financing mechanisms in India are out-of-pocket expenses, privately held health insurance, and government-sponsored health insurance programs. The progress toward achieving UHC in India has been slow, and there is a need for sustained efforts to improve healthcare access, quality, and affordability, especially for the poor and vulnerable populations.

Policy Recommendations:

Policy Recommendations for Financing Healthcare Expenditure in Indian Context:

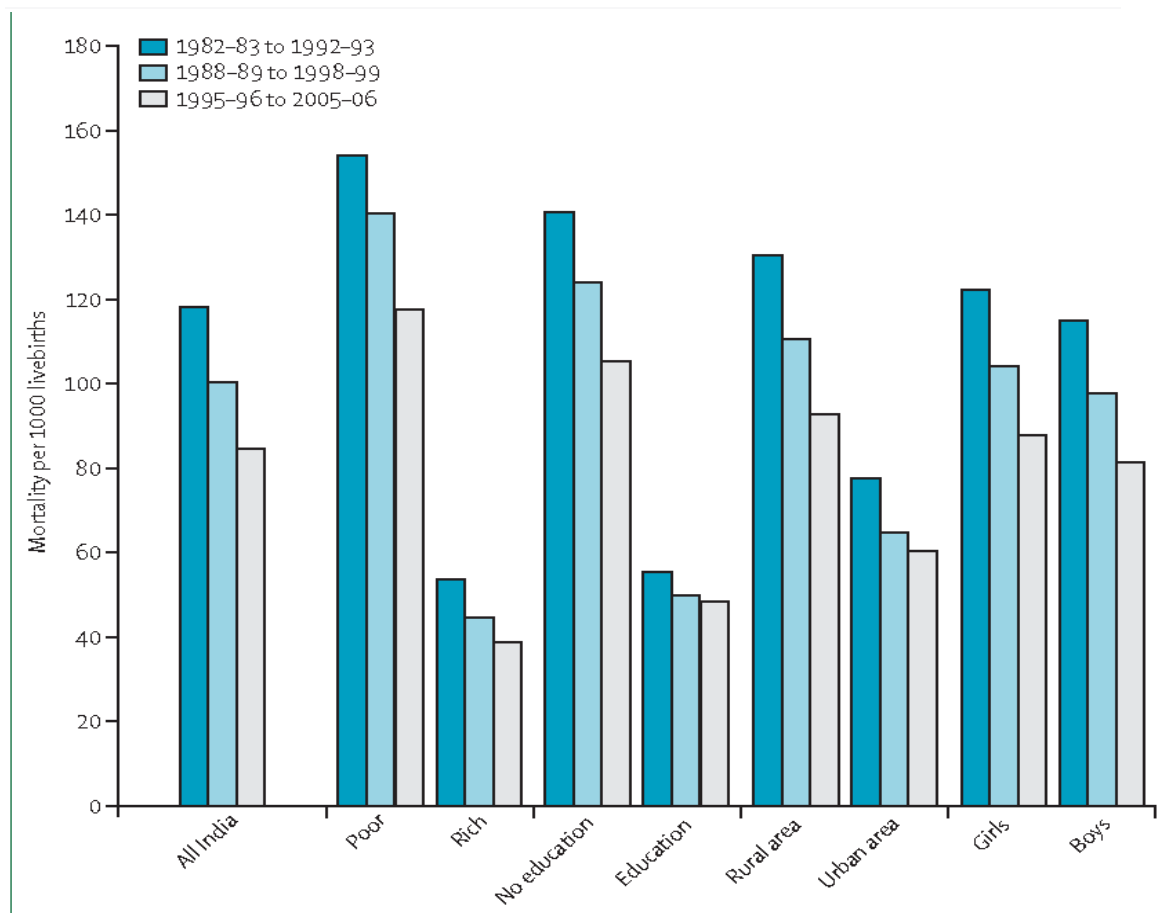
1. Increase Government Spending:

The government of India should increase its spending on healthcare to achieve universal health coverage (UHC). The current expenditure on healthcare is only around 1.28% of the GDP, which is insufficient to provide basic health services to the entire population and which is much lower than in other developing countries. The government should allocate at least 2.5% of GDP to healthcare. This would enable the government to provide better healthcare facilities and services to the people, especially the poor.

2. Expand Health Insurance Coverage:

Although India has improved its health insurance coverage, there are still Only a small portion of the population in India has access to adequate health insurance. To guarantee that all residents have access to reasonably priced health insurance, the government should endeavor to increase the coverage of its most important health insurance programs, such as Ayushman Bharat and Rashtriya Swasthya Bima Yojana. To guarantee that it offers sufficient coverage at reasonable prices, the government should also regulate the private health insurance sector. The cost of healthcare in India may be effectively financed by health insurance. By providing incentives to insurance providers, the government should encourage them to provide policies that are both affordable

and available to everyone. To increase coverage, the government may also think about providing subsidies to low-income households for their health insurance premiums.



Health care and equity in India: Towards Universal Health Coverage (Y. Balarajan, S. Selvaraj)

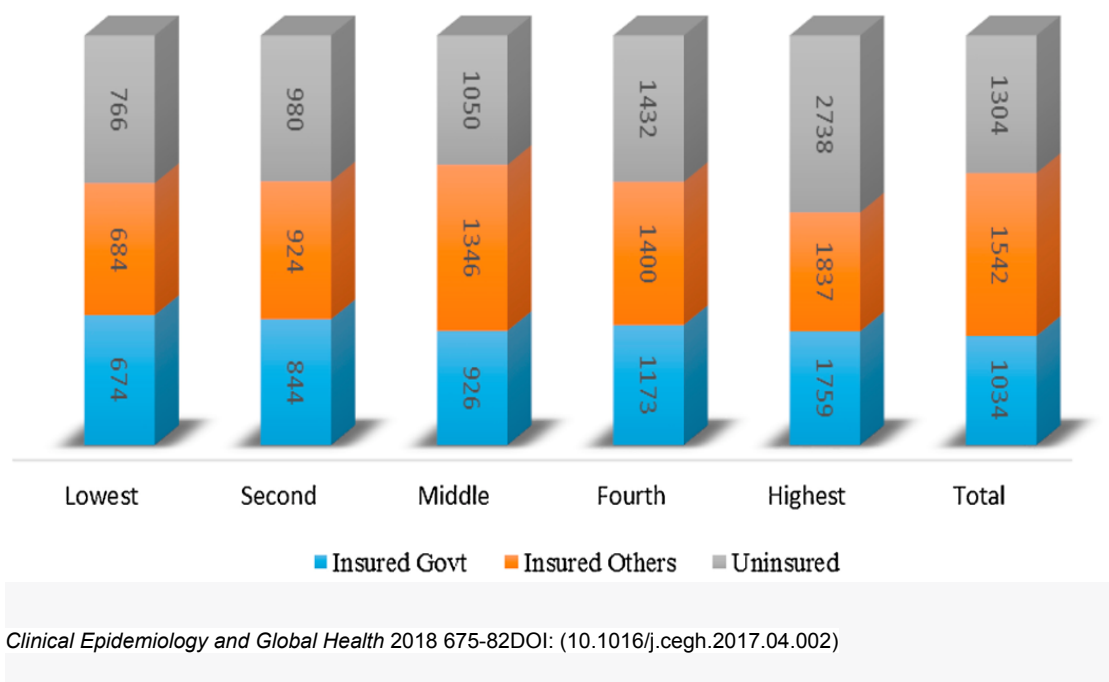
3. Improve the Quality of Healthcare Services:

While ensuring that people have access to healthcare is critical, it is also crucial to guarantee that the services are of high quality. In India, particularly in the countryside, the quality of healthcare services is frequently subpar. The government should invest in raising the caliber of healthcare services by educating healthcare workers, modernizing the system, and putting in place quality assurance procedures.

4. Reduce Out-of-Pocket Expenditures:

Healthcare costs that are paid out of pocket might make households poor. Individuals in India pay a substantial share of healthcare costs, which results in

hardship and poverty. The government should put policies into place to lower out-of-pocket expenses, such as expanding health insurance coverage, controlling the cost of medical services and prescription drugs, and giving the poor subsidies.



5. Encourage Public-Private Partnerships:

The government can investigate cutting-edge financing techniques like public-private partnerships, social health insurance plans, and community-based health finance models. These systems can aid in resource sharing and guarantee that everyone has access to quality healthcare at an affordable price. Public-private partnerships should be encouraged by the government to expand the accessibility and availability of healthcare services, particularly in rural areas. The healthcare infrastructure gap can be filled by the private sector, which can also deliver high-quality healthcare services to neglected areas.

6. Increase Focus on Preventive Healthcare:

Investing in preventative healthcare can help lower the financial burden of illness and related medical expenses. To lessen the burden of sickness and ultimately minimize healthcare expenditures, the government should put more emphasis on preventive healthcare. This can be done through encouraging healthy habits, offering immunizations, offering screening and early detection services for common diseases, and running health awareness programs.

7. Strengthen Health Information Systems:

To enhance data collecting and analysis, the government should make investments in bolstering health information systems. This will make it easier to create and evaluate healthcare policies and programs and assure their effectiveness and adherence to the latest scientific research.

To sum up, India must implement a multifaceted strategy to enhance healthcare financing. Essential policy recommendations that can aid in achieving universal health coverage and enhancing population health outcomes include raising government spending, broadening health insurance coverage, enhancing healthcare service quality, lowering out-of-pocket costs, encouraging public-private partnerships, putting a greater emphasis on preventive healthcare, and strengthening health information systems.

Conclusions:

The fact that healthcare costs in India significantly impoverish households, especially the impoverished ones, is one of the report's primary findings. According to studies, a sizable fraction of households in India experience catastrophic health costs due to excessive out-of-pocket charges, which exacerbates poverty and financial instability. This emphasizes the requirement for laws to shield families from the costs of poor health.

Another result of the study is that although government-sponsored health insurance programs have been put in place to safeguard households from financial risk, they have mostly failed to lower out-of-pocket costs for consumers. According to studies, these programs frequently miss the poorest and most vulnerable people and do not offer enough coverage for serious illnesses.

The paper suggests several policy actions to address these issues. They include boosting government spending on healthcare, raising the standard of healthcare delivery, and extending the reach of health insurance programs to the most vulnerable and low-income groups. Policies that support preventative care and lessen the impact of non-communicable diseases can also save healthcare costs and enhance health outcomes.

In conclusion, policymakers in India must give healthcare financing their immediate attention. High out-of-pocket costs for healthcare, especially for the poor,

place a heavy financial burden on families and contribute to poverty. A comprehensive strategy is needed to address this problem, one that includes boosting public healthcare spending, raising the standard of healthcare delivery, and extending health insurance coverage to the most vulnerable and underprivileged groups. Only then will India be able to improve health outcomes for all of its population and attain the objective of universal health coverage.

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